NET LEASE forum

The On-Line Newsletter from the Editors of Real Estate Forum and GlobeSt.com

November 18, 2003 Vol 1. No.18

INDUSTRY UPDATE

FASB Proposes Modifications To FIN 46

Will Changes Affect Reporting Of Synthetics?

Roughly two months before the deadline to comply with FIN 46, which provides guidance for the reporting of special-purpose, or variable-interest, entities, the **Financial Accounting Standards Board** has proposed a series of modifications to the document. The Norwalk, CT-based FASB is accepting comments on the proposed changes until Dec. 1.

Some real estate industry experts say the changes are, for the most part, wording adjustments and clarifications that are not likely to have any substantive impact on FIN 46's implementation with regards to synthetic leases. Rich Jeanneret, partner and mid-Atlantic real estate industry leader for **Ernst & Young LLP**, says members of his firm "don't expect changes in the application to synthetic leasing.

"I think this is going to be a very fluid standard for quite a while."

▸ **Rich Jeanneret**
Ernst & Young

"That doesn't mean that something couldn't evolve," Jeanneret adds. "I think this is going to be a very fluid standard for quite a while."

David Silvers, vice chairman of New York-based **U.S. Realty Advisors LLC**, offers a different view. He notes that an appendix of variable-interest examples, including one related to leases, is eliminated from the original document as part of the proposed changes, with the proviso that the FASB will provide guidance on such examples in the future. "Existing and future synthetic lease transactions may now find themselves recharacterized as transactions that are required to be consolidated into the financial statements of the nominal synthetic lessees," Silvers warns.

An attempt to clarify the very technical FIN 46 won't come as a surprise to many in real estate. Since it was first issued in January, affected parties have been busy trying to understand and apply FIN 46. Along the way, many in the business—including accountants, attorneys, corporate CFOs and real estate advisors—have told ***NET LEASE forum*** they found parts of the document hard to decipher.

"There has been no generally accepted view on how to interpret FIN 46," says Mike Rotchford, president of New York-based **Cushman & Wakefield Securities**. "I view FIN 46 as a work in progress."

"The proposal is being issued in response to input received from constituents regarding certain issues arising in implementing Interpretation 46," FASB stated in releasing the draft of proposed changes. The draft itself further states: "Since the issuance of Interpretation 46, the board has learned that certain provi-

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AT DEADLINE

In what is likely to be the Pittsburgh area's biggest office deal of 2003, **Dick's Sporting Goods** signed a 20-year, triple-net lease for a build-to-suit headquarters in Findlay Township, PA.

See details in *GlobeSt.com*'s story: http://www.globest.com/RMISOWPN-MMD.html.

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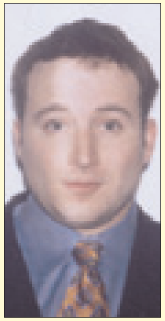

Jeff Rothbart

How does investing in net-leased real estate compare to putting your money on Wall Street? According to Jeff Rothbart, research director for the ***Boulder Group*** *of Northbrook, IL, it is far superior. In this guest column, Rothbart crunches the numbers after contemplating why a credit-tenant, net-leased property may be ideal for a 1031 exchange.*

While 1031 exchange investors have a myriad of options—including but not limited to vacant land, apartment buildings or industrial property—it may seem difficult to sort among these various choices. We believe that the choice is actually very simple. Purchasing net-leased, credit-tenant properties is essentially equivalent to buying corporate bonds. These properties are easily leveraged, extremely secure and liquid investments that provide a management-free cash flow.

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