



April 1, 2005

Mr. Jonathan G. Katz
Secretary
Securities and Exchange Commission
450 Fifth Street, NW
Washington, DC 20549-0609

Re: File Number 4-497

Dear Mr. Katz:

Developers Diversified Realty Corporation (“DDR”, “we” or the “Company”) appreciates the opportunity provided by the Commission to provide feedback on Section 404 of the Sarbanes-Oxley Act of 2002 (the “Act”). DDR is a large publicly held real estate investment trust with approximately \$5.6 billion in net assets at December 31, 2004. We own, develop, acquire and operate retail and industrial real estate assets in 44 states and Puerto Rico. From an organizational perspective, DDR employs approximately 525 employees and has a centralized structure, in which all of the Company’s key internal controls over financial reporting are performed at the corporate headquarters in Cleveland, Ohio.

DDR is an accelerated filer and completed the implementation of Section 404 of the Act earlier this month. We are audited by PricewaterhouseCoopers LLP (“PwC”) and retained several external service providers to assist in management’s documentation and testing of internal controls. We estimate that the Company incurred approximately \$1.1 million in external and internal resources, including the independent auditor’s fee, to implement Section 404 of the Act.

We have seen a benefit within our organization from implementation of Section 404 of the Act. The benefits include an increased awareness of internal controls throughout all levels of the organization. The Company’s board of directors and senior officers have formalized risk management policies which focus on controls and practices to minimize risks. We also established a full time internal audit department to monitor the organization’s internal controls.

However, despite the benefits we derived through the process, we do not believe the benefits outweighed the costs and burden in resources that the first year of compliance placed on the Company. Furthermore, the overly procedural nature of internal control documentation now required by the PCAOB standards does not foster positive employee

morale. We agree with the premise of the Act, which was to bring about corporate reform through process improvements, stronger internal control structures and increased accountability. Yet, we believe that a significant portion of the resources expended in this effort contributed to process documentation, as opposed to process improvement. There are two main areas where we believe the intent of the Act was distorted through the subsequent interpretations of the PCAOB and registered accounting firms. The interpretations of the Act were costly to companies and their investors, yielded unintended consequences and adversely affected the quality of the audit process.

Cost Benefit

The first issue we would like to address is the exorbitant cost of compliance as compared with the benefit provided to investors. At the end of the day, we believe the cost of complying with the Act far outweighed the benefit provided to investors.

- There is a significant duplication of efforts by companies and their auditors in testing internal controls over financial reporting as required by the PCAOB's Auditing Standard No. 2 ("Standard No. 2"). The level of duplication required by Standard No. 2 was exacerbated by the registered accounting firms' interpretation of Standard No. 2 with respect to the level of independent testing and evidence required. The end result was the independent testing by accounting firms of nearly all of companies' key controls. Internal controls testing and evaluation performed by management and the accounting firms in the same year has the undesirable effect of doubling costs to investors without providing any additional assurances on the effectiveness of internal controls. If the market obtains the highest comfort on the effectiveness of companies' internal control structures through an independent audit, then we believe Standard No. 2 should be revised to eliminate the requirement for a redundant internal controls audit by companies.
- The excessive coverage of internal control testing required by Standard No. 2 contributed to excessive compliance costs without congruent benefit. The revised sample size guidance applied by independent accounting firms in testing the effectiveness of internal controls is in excess of historical internal control testing prescribed by the Institute of Internal Auditors and that which was practiced by public accounting firms until mid-2004.
- The auditor's requirement to provide an ongoing internal controls evaluation throughout the financial statement audit and separate entity audit engagements after internal control testing has been completed also contributed to excessive compliance costs. Audit firms are required to re-evaluate internal control testing and evaluations whenever errors, regardless of materiality, are discovered through financial statement audits and other services performed for their client. Accordingly accounting firms which were under staffing constraints this past year allocated time and effort toward documentation of the gross potential error assessment of immaterial items, whereas the efforts should have been focused on areas which present higher risk. The result is a

more costly audit which potentially provides less assurance of the quality of financial statements than before Section 404 of the Act.

- Most significantly, we believe that the lack of judgment permitted to companies and their auditors in quantifying control deficiencies results in excessive costs and is a distraction from the operation of the business to the detriment of investors. In evaluating control deficiencies, using the formula for quantifying a control deficiency prescribed in “A Framework for Evaluating Control Exceptions and Deficiencies” Version 3 does not allow for conventional extrapolation of sampled error rates or another reasonable approach to estimate the potential for error as the result of a control deficiency. The process for quantifying internal control deficiencies leaves companies and auditors little option other than to substantively test the entire population subject to the internal control to arrive at the known error versus the potential for error. The additional time and costs spent in reducing the gross exposure of internal control deficiencies, which would be clearly immaterial to a prudent person, to a level below a significant deficiency threshold was not a benefit to the company or its shareholders. Moreover, the significant time and effort spent quantifying internal control deficiencies is time that would normally be devoted to the effective operation of the ongoing business.

Undue Focus on Detailed Process Documentation and Testing

The last issue relates to the level of detail required throughout the entire process beginning with the documentation of internal controls, to the evidence of performance of those controls, to the control deficiency evaluation. We believe the focus on and time involved with testing and documenting routine control activities detracts from the issues which the Act intended to address and ultimately is of little benefit to investors. Companies and auditors alike have experienced a shortage in qualified resources and the resources they have are spending a great deal of time ensuring the form is met. For management, the time and effort required to document and test routine control activities takes time away from the more beneficial task of running the business and managing the real risks for the betterment of all shareholders.

The quality and timeliness of audit firms’ services suffered under the PCAOB’s extensive documentation requirements and unusual resource constraints placed upon the industry this past year. In December 2004, in advance of a common share equity offering, DDR was required to file a Form 8-K with the audited financial statements of its probable acquisitions and the effects of such transactions on its financial statements. DDR had difficulty engaging the services of two of the “Big 4” audit firms to perform the work required under Form 8-K in a timely fashion due to the burden of Section 404 of the Act on those firms. We believe the staffing constraints of public accounting firms under the Section 404 burden could jeopardize public companies’ timely access to capital and impede management in growing the business for the benefit of shareholders.

The auditor's requirement under the PCAOB's Auditing Standard No. 3 to finalize all audit documentation by the date of the audit report release coupled with the extensive amount of documentation required by Section 404 of the Act caused additional strain on the quality of audits performed. We support the audit firms' contention that this requirement is an unreasonable expectation and in an environment of limited quality resources there is a cost of meeting this time line. PwC researched the issues thoroughly and consulted with appropriate experts to assist management in reaching the appropriate answers. But many times these issues are resolved towards the end of the audit, especially when complex transactions occur at the end of the year. Additionally, during this limited timeframe, the auditors are reviewing company filings to ensure their accuracy up until the filing date, which continues to entail a great deal of documentation. As a result, the auditor's focus is redirected from reaching the right conclusions prior to filing to ensuring that the conclusions reached are sufficiently documented within the timeframe. Ultimately, we believe that the time limitation placed on audit firms to complete audit documentation compromises the quality of the conclusions reached. We advocate a position which affords auditors the latitude to exercise professional judgment in determining the date in which audits are substantially completed and provides additional time subsequent to the filing to finalize documentation.

The undue burden placed on management and auditors in this compliance endeavor ultimately detracts from the focus to manage the business and promote quality financial reporting and transparent disclosure. Add to these concerns the continued acceleration of filing deadlines, and we believe that the accounting industry will be debilitated and severely challenged to provide the investor with accurate information on a timely basis. We advocate a moderated approach to Section 404 compliance in the future tempered with the latitude to apply professional judgment.

We urge the Commission to issue additional guidance that would significantly reduce the costs to investors by addressing the issues described above and increase the practical application of the Act.

We appreciate the opportunity to share our experience in implementing the new internal control requirements under Section 404 of the Act. We actively support the development and improvement of practical accounting and auditing standards and believe that additional time and clarification of Standard No. 2 is required to maximize the benefit to investors. If you have any questions regarding this response, please contact me at (216) 755-5500.

Respectfully Submitted,

Developers Diversified Realty Corporation

/s/ William H. Schafer

William H. Schafer
Sr. Vice President and Chief Financial Officer