Taubman

Letter of Comment No: 21
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Date Received:

August 18, 2005

Mr. Lawrence W. Smith, Director
Technical Application and Implementation Activities
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Re: Proposed FASB Staff Position No. FAS 13-b "Accounting for Rental Costs Incurred During a Construction Period"

Dear Mr. Smith:

Taubman Centers, Inc. has reviewed the above-referenced Proposed FASB Staff Position and appreciates the opportunity to comment on it. Taubman Centers, Inc. is a real estate investment trust that is engaged in the ownership, development, acquisition, and operation of regional shopping centers and interests therein. We currently own and/or manage 22 shopping centers in 10 states and have two additional centers under construction.

We understand the Board directed its staff to issue this FASB Staff Position after the EITF was not able to reach consensus on the issue of the accounting for rental costs incurred during the construction period. In response to the EITF Issue, some who commented argued against expensing rental costs during construction through analogy to capitalization of interest costs and real estate project costs. Many were retailers for which construction is primarily for assets to be used in their own operations, of a short-term nature, and potentially subject to diversity in accounting practices. While we will not reiterate each of those arguments herein, which we generally supported, we encourage the Board to reconsider this proposed Staff Position in the context of real estate companies and developers of investment properties.

Our primary business strategy includes an active program of regional shopping center development. The development and construction phases of regional shopping centers typically extend over several years, with the process of selecting sites, securing land, obtaining zoning and regulatory approvals, entering into agreements with anchors and tenants, structuring ownership, and obtaining financing often being very lengthy. Obtaining the rights to land can take the form of a purchase or a long-term lease (typically the terms would range from 75 to 100 years). Approximately one-quarter of our current portfolio is subject to ground leases.

Leasing (rather than purchasing) land for shopping center development is often done for economic, legal/statutory, tax, or other deal-specific reasons. But regardless of the rationale for doing so, leasing land is no different than purchasing the land as far as it is essential to secure the use of the land for the development of an investment property. Purchasing or renting land is similar to the other development activities mentioned above in that many convey rights for periods both before and after construction and certainly all of them are critical for the success of the shopping center. In that regard, rentals under ground leases incurred during the construction period, like other development costs, contribute to the future economic benefits of a project being constructed and are directly and incrementally incurred in relation to it.

It is for this reason that we capitalize ground rental costs during construction as direct project costs under Statement No. 67 *Accounting for Costs and Initial Rental Operations of Real Estate Projects* and believe that such rentals rent meet the definition of an asset. Our capitalization policy also considers through analogy that Statement No. 19 *Financial Accounting and Reporting by Oil and Gas Producing Companies* has supported the concept of rentals as an asset for the extraction industry, and that international accounting standards appear to similarly support capitalization of rentals during construction. Finally, we believe capitalizing ground rent during construction allows for treatment consistent with that provided by Statement No. 67 for other land-related costs incurred during this period, such as property taxes.

We believe the practice of capitalizing ground rental costs during construction is consistently applied in our particular industry and uniformly accepted by the major accounting firms and, from our understanding, the SEC. Unlike the effect on many of those initially providing comment on the earlier EITF Issue, expensing ground rentals during construction would represent a dramatic industry-wide change in accounting. This level of change in capitalization policy for shopping centers may create inconsistency between companies and individual construction projects depending on the means chosen for obtaining the rights to land. We believe that such inconsistency will adversely affect the comparability and usefulness of measurements of returns and capital invested.

In addition to the conceptual concerns we have, we believe the proposed Staff Position is problematic in other ways. We understand that the Board, as well as the International Accounting Standards Board (IASB), will develop a broad new lease accounting standard over the next several years. We believe that the issuance of a Staff Position such as this one that both further interprets existing lease accounting in advance of the expected development of new lease accounting standards, and at the same time changes industry-wide practice, is not prudent. In that regard, we believe that even if this Staff Position were to be issued, it should be done only in the broader context of a comprehensive lease accounting project.

Again, we encourage the Board to strongly consider the specific impact of this proposed Staff Position on the accounting for investment properties. The impact of this proposed Staff Position is also being addressed in a separate comment letter from the National Association of Real Estate Investment Trusts, in which were are a member. We support its positions on the matter.

Thank you for this opportunity to submit our comments regarding accounting for rental costs incurred during the construction period.

Sincerely yours,

Esther R. Blum

Esther R. Blum
Senior Vice President, Controller, and Chief Accounting Officer