

AMERICAN CAMPUS COMMUNITIES
805 LAS CIMAS PARKWAY, SUITE 400
AUSTIN, TEXAS 78746

August 17, 2005

Letter of Comment No: 8
File Reference: FSPFAS13-B
Date Received:

Re: Comments on Proposed FSP No. FAS 13-b

Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Dear Director, TA&I – FSP:

This letter is in comment to FASB Staff Position No. FAS 13-b (the “Proposed FSP”) concerning the proposed accounting for rental costs incurred during a construction period. The Proposed FSP proposes that rental costs associated with ground or building operating leases that are incurred during a construction period should be recognized as rental expense.

American Campus Communities (the “company”) is a publicly traded REIT primarily engaged in the operation of student housing communities (or “properties”). The majority of the communities operated have been acquired from third parties while the rest have been funded and developed by American Campus Communities utilizing a general contractor under our supervision and direction. For the properties that we have constructed, the company has owned the land except in a few circumstances in which we enter into long-term ground leases which are typically in excess of 30 years, excluding extensions. Rents under these ground leases during construction has been allocated on a straight-line basis over the term of the ground lease and any amounts incurred during the construction period has been capitalized as construction costs and amortized over the lesser of the length of the ground lease or life of the building. In all circumstances if the ground lease term is shorter than the typical 40-year life of a building than the building is depreciated over the term of the ground lease.

The typical construction period is nine to eighteen months and during this time no revenues are being generated from students as a certificate of occupancy cannot be obtained until the building is completed and within code. Under the Proposed FSP the company would be required to expense ground lease rents for such projects that we enter

into in which we do not own the land. This concept appears to contradict the matching principle addressed in Statement of Financial Accounting Concepts No. 6 which requires that all expenses incurred in the generation of revenue should be recognized in the same accounting period as the related revenues are recognized. As previously mentioned a property under construction by American Campus Communities cannot be occupied until it passes code and until that event occurs, revenues cannot be generated and recognized. The Proposed FSP as written goes against the matching principle in which expenses would be incurred on the statement of operations with no possible revenues that could be recognized during construction to match these expenses.

The Proposed FSP also appears to conflict with FASB 34, *Capitalization of Interest Cost*. Paragraph 39 of FASB 34 states that "The Board concluded that interest cost is a part of the cost of acquiring an asset if a period of time is required in which to carry out the activities necessary to get it ready for its intended use.....Although assets may be capable of being applied to a variety of possible uses, the use intended by the enterprise in deciding to acquire an asset has an important bearing on the nature and value of the economic benefits that it will yield." Ground lease rent during construction allows access to the land for construction which allows the company to prepare the asset for its intended use. As such, ground lease rents during construction should be allowed to be capitalized, like capitalization of interest cost, as part of the related asset.

Lastly, most ground leases contain terms in which no payments or a minimal payment is required to be made during construction as the land owner realizes that the value of the ground lease commences when the asset has been completed for its intended use. Once the asset has been approved for occupancy and is ready for its intended use, most ground leases contain provisions for increased rents or incentive rents based on the cash flow of the property. This economic reality of the value of lease payments during and after construction to both parties involved is not allowed to be accounted for in the same manner as how the parties economically perceive such. FASB Technical Bulletin No. 88-1, *Issues Relating to Accounting for Leases*, requires that rental costs associated with operating leases be allocated on a straight-line basis starting with the beginning of the lease term. As a result of this guidance and the Proposed FSP, the company would be required to expense ground lease rents for projects that we enter into in which we do not own the land under an "accelerated" expense recognition methodology that does not represent economic reality and does not present the reader of the financial statements with a true picture of the financial operations of the project or business.

The Proposed FSP as written appears to go against the matching principle as the property being constructed by American Campus Communities cannot receive a certificate of occupancy until construction is completed. As a result ground lease rents under the Proposed FSP would be required to be recognized in a period in which corresponding revenues cannot be generated or recognized to match such expenses and as such this contradicts the matching principle. In addition the Proposed FSP along with current lease accounting guidance does not represent business reality in which ground lease payments will generally be zero to minimal during construction, but current accounting rules require straight-lining of rents. If a facility cannot be occupied by law so that revenues

August 17, 2005

can be generated, companies should be allowed to capitalize ground lease expense to the project to be amortized over the life assigned to the facility in which revenues are also being generated at that time.

Sincerely,

Jon A. Graf
Senior Vice President and Chief Accounting Officer
American Campus Communities