FORESTCITY
ENTERPRISES

Letter of Comment No: 3
File Reference: FSPFAS13-B
Date Received:

August 11, 2005

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

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

Dear Mr. Smith:

Forest City Enterprises, Inc. (FCE) is a publicly traded real estate corporation headquartered in Cleveland, Ohio with over $7.4 billion in total assets. We own, develop, acquire and operate commercial and residential real estate across the United States.

We appreciate the opportunity to comment on the proposed Financial Accounting Standards Board (FASB) Staff Position enumerated above ("the FSP"). We have no comment as to rental costs associated with building leases during a construction period. However, we do not agree with the position that rental costs associated with ground leases incurred during a construction period should be recognized as rental expense. We believe that rental costs related to ground leases are incremental costs of development and should be capitalized during the construction period.

Paragraph 6 of FASB Statement No. 34, *Capitalization of Interest Costs*, states that the historical cost of acquiring an asset includes the costs necessarily incurred to bring it to the condition and location necessary for its intended use, including the interest cost incurred during that period. Paragraph 18 states that the capitalization period shall end when the asset is substantially complete and ready for its intended use. It is our belief that rental costs incurred during the construction period are similar in nature to interest costs and should be capitalized as such. In most instances, FCE acquires the land under its development projects. However, in some instances, the economics of the deal favor leasing the underlying land. It is our opinion that either method of financing the land (lease or debt) should have consistent accounting as to the capitalization of related costs. As FASB Statement No. 34 requires capitalization of interest costs during the construction period, we believe it is appropriate to capitalize ground rent during the construction period. Whether it be interest on debt or ground rent, these costs, in our opinion, are direct incremental costs of the development project.

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Paragraphs 6 and 7 of FASB Statement No. 67, *Accounting for Costs and Initial Rental Operation of Real Estate Projects*, provide for the capitalization of certain costs incurred during construction of real estate projects to be sold or rented, including property taxes, insurance, and other project costs clearly associated with the acquisition, development, and construction of a real estate project. We believe that ground rental costs are project costs similar to taxes and insurance and therefore, should also be capitalized during the construction period.

Thank you for your consideration of our objections to expensing rental costs incurred on ground leases during the construction period of a leased asset. If you have any questions regarding our comments, please contact Linda Kane at (216) 416-3338 or Chuck Obert at (216) 416-3318.

Sincerely,

Linda M. Kane
Senior Vice President and Corporate Controller
Forest City Enterprises, Inc.

Chuck Obert
Vice President and Assistant Controller – External Reporting
Forest City Enterprises, Inc.