EXHIBIT 4

Should Lessees Capitalize Rental Costs Incurred During Construction?

In practice, some lessees capitalized ground or building rentals incurred during construction as part of the historical cost of a building or leasehold improvements. By analogy to SFAS 34, *Capitalization of Interest Cost*, they viewed the treatment of rental costs incurred during construction as equivalent to the treatment of interest costs during the same timeframe; that is, as an integral cost of readying the asset for its intended use. Others analogized to SFAS 67, *Accounting for Costs and Initial Rental Operations of Real Estate Projects*, which requires real estate developers to capitalize property taxes, insurance, and other directly associated expenditures as project costs during the construction period.

Companies undertaking their own construction projects often extended this treatment to ground leases, even though the scope of SFAS 67 specifically excludes real estate developed by a company for its own use. Many lessees further extended this analogy to support the capitalization of building rentals. EITF Issue 05-3 also discussed other areas of the accounting literature that were used by lessees to support the capitalization of rental costs during construction.

Conversely, many lessees expensed rental costs incurred during the asset's construction based on the view that rent is incurred for the right to use (or control) an asset for a designated period of time. This view ignores any distinction between an asset undergoing construction activities and an asset in active use. Accordingly, these costs are not considered "probable future benefits" that qualify for capitalization. This viewpoint conflicts with the previous analogy to SFAS 34, because rental costs incurred during construction, unlike interest costs, are not deemed to be avoidable because the lessee does not generally own the underlying leased property.

In Issue 05-3, the EITF also discussed other divergent views, including whether capitalization should be limited solely to rental costs of ground operating leases. On these issues, the EITF was unable to reach a consensus. Subsequently, FASB provided formal guidance in FSP FAS 13-1.