method, which approximates the effective interest method. Leasehold improvements and equipment are depreciated on the straight-line method over the shorter of the expected useful lives or the lease terms which range from 3 to 10 years. Accumulated depreciation and amortization for such assets totaled $22.7 million in 2004 and $19.3 million in 2003.

Income Recognition

Our rental and other property income is recorded when due from residents and is recognized monthly as it is earned. Other property income consists primarily of utility rebillings, and administrative, application and other transactional fees charged to our residents. Our apartment homes are rented to residents on lease terms generally ranging from 6 to 13 months, with monthly payments due in advance. Interest, fee and asset management and all other sources of income are recognized as earned. Two of our properties are subject to rent control or rent stabilization. Operations of apartment properties acquired are recorded from the date of acquisition in accordance with the purchase method of accounting. In management's opinion, due to the number of residents, the type and diversity of submarkets in which the properties operate, and the collection terms, there is no significant concentration of credit risk.

Third-Party Construction Services

Our construction division performs services for our internally developed communities, as well as provides construction management and general contracting services for third-party owners of multifamily, commercial and retail properties. Income from these third-party projects is recognized on a percentage-of-completion basis. For projects where our fee is based on a fixed price, any cost overruns, as compared to the original budget, incurred during construction will reduce the fee generated on those projects. For any project where cost overruns are expected to be in excess of the fee generated on the project, we will recognize the total projected loss in the period in which the loss is first estimated. See Note 7 for further discussion of our third-party construction services.

Stock-Based Employee Compensation

Prior to 2003, we accounted for option grants under the intrinsic method set forth in Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees", and related Interpretations. Beginning 2003, we adopted Statement of Financial Accounting Standards ("SFAS") No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure", an amendment of SFAS No. 123, "Accounting for Stock-Based Compensation". As a result of our adoption of the prospective method set forth in SFAS No. 148, we recognize stock-based employee compensation when new options are awarded. We recorded compensation expense totaling $0.6 million and $0.2 million during the years ended 2004 and 2003, respectively, associated with awards accounted for under the fair value method. Additionally, we began recognizing compensation expense on shares purchased under our Employee Share Purchase Plan ("ESPP") for the difference in the price paid by our employees and the fair market value of our shares at the date of purchase. We expensed $0.2 million related to ESPP purchases during 2004.

The fair value of each option granted is estimated on the date of grant utilizing the Black-Scholes option pricing model with the following assumptions used for grants in 2004, 2003 and 2002 respectively: risk-free interest rates of 4.2%, 4.0% and 5.0% to 5.2%; expected life of ten years; dividend yield of 5.9%, 8.1% and 6.9% to 7.0%; and expected share volatility of 18.0%, 18.3% and 18.1%. The weighted average fair value of options granted in 2004, 2003 and 2002 was $3.83, $1.38 and $2.85 per share, respectively.