

Campus Crest Communities, Inc.  
Form 10-Q  
November 05, 2012

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

**FORM 10-Q**

**X QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934**

**For the quarterly period ended September 30, 2012**

**OR**

**.. TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934**

**For the transition period from \_\_\_\_\_ to**

**Commission file number: 001-34872**

**CAMPUS CREST COMMUNITIES, INC.**

(Exact name of registrant as specified in its charter)

|   |   |
|---|---|
| <b>Maryland</b>   | <b>27-2481988</b>                             |
| (State or other jurisdiction of<br>incorporation or organization) | (I.R.S.<br>Employer<br>Identification<br>No.) |

|  |              |
|--|--------------|
| <b>2100 Rexford Road, Suite 414, Charlotte, NC</b> | <b>28211</b> |
| (Address of principal executive offices)           | (Zip Code)   |

**(704) 496-2500**  
(Registrant's telephone number, including area code)

N/A

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(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

| Class                                    | Outstanding at November 1, 2012 |
|--|---------------------------------|
| Common Stock, \$0.01 par value per share | 38,558,048 shares               |

**CAMPUS CREST COMMUNITIES, INC.**

**FORM 10-Q**

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**PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****CAMPUS CREST COMMUNITIES, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS****(In thousands, except per share data)****(Unaudited)**

|  | September<br>30, 2012 | December<br>31, 2011 |
|--|-----------------------|----------------------|
| Assets   |                       |                      |
| Investment in real estate, net:  |                       |                      |
| Student housing properties   | \$ 667,182            | \$ 512,227           |
| Accumulated depreciation   | (91,680 )             | (76,164 )            |
| Development in process   | 33,558                | 45,278               |
| Investment in real estate, net   | 609,060               | 481,341              |
| Investment in unconsolidated entities  | 18,594                | 21,052               |
| Cash and cash equivalents  | 15,984                | 10,735               |
| Restricted cash  | 4,371                 | 2,495                |
| Student receivables, net of allowance for doubtful accounts<br>of \$677 and \$246, respectively                        | 2,050                 | 1,259                |
| Cost and earnings in excess of construction billings   | 17,047                | 10,556               |
| Other assets, net  | 12,112                | 12,819               |
| Total assets   | \$ 679,218            | \$ 540,257           |
| Liabilities and Equity   |                       |                      |
| Liabilities:   |                       |                      |
| Mortgage and construction notes payable  | \$ 216,612            | \$ 186,914           |
| Line of credit and other debt  | 59,874                | 82,052               |
| Accounts payable and accrued expenses  | 39,952                | 30,650               |
| Construction billings in excess of cost and earnings   | 135                   | 165                  |
| Other liabilities  | 13,274                | 9,341                |
| Total liabilities  | 329,847               | 309,122              |
| Commitments and contingencies  |                       |                      |
| Equity:  |                       |                      |
| Preferred stock, \$0.01 par value, 10,000 shares authorized:   |                       |                      |
| 8.00% Series A Cumulative Redeemable Preferred Stock<br>(liquidation preference \$25.00 per share), 2,300 and 0 shares | 23                    | -                    |

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|  |            |            |
|--|------------|------------|
| issued and outstanding in 2012 and 2011, respectively  |            |            |
| Common stock, \$0.01 par value, 90,000 shares authorized,<br>38,560 and 30,710 shares issued and outstanding in 2012<br>and 2011, respectively | 386        | 307        |
| Additional common and preferred paid-in capital  | 376,795    | 248,599    |
| Accumulated deficit and distributions  | (31,988 )  | (21,410 )  |
| Accumulated other comprehensive loss   | (168 )     | (387 )     |
| Total stockholders' equity   | 345,048    | 227,109    |
| Noncontrolling interests   | 4,323      | 4,026      |
| Total equity   | 349,371    | 231,135    |
| Total liabilities and equity   | \$ 679,218 | \$ 540,257 |

See accompanying notes to condensed consolidated financial statements.

**CAMPUS CREST COMMUNITIES, INC.****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)****(In thousands, except per share data)****(Unaudited)**

|  | Three Months Ended |           | Nine Months Ended |            |
|--|--------------------|-----------|-------------------|------------|
|  | September          | September | September         | September  |
|  | 30,                | 30, 2011  | 30, 2012          | 30, 2011   |
|  | 2012               |           |                   |            |
| Revenues:  |                    |           |                   |            |
| Student housing rental   | \$21,449           | \$ 14,883 | \$57,160          | \$ 41,054  |
| Student housing services   | 934                | 686       | 2,430             | 1,662      |
| Development, construction and management services                                    | 12,103             | 4,827     | 43,162            | 26,444     |
| Total revenues   | 34,486             | 20,396    | 102,752           | 69,160     |
| Operating expenses:  |                    |           |                   |            |
| Student housing operations   | 10,123             | 7,234     | 27,631            | 20,001     |
| Development, construction and management services                                    | 11,374             | 4,393     | 40,260            | 24,229     |
| General and administrative   | 1,972              | 1,253     | 6,517             | 4,923      |
| Ground leases  | 54                 | 52        | 163               | 156        |
| Depreciation and amortization  | 5,799              | 4,873     | 17,528            | 15,239     |
| Total operating expenses   | 29,322             | 17,805    | 92,099            | 64,548     |
| Equity in earnings (loss) of unconsolidated entities                                 | 86                 | (233 )    | 283               | (759 )     |
| Operating income (loss)  | 5,250              | 2,358     | 10,936            | 3,853      |
| Nonoperating income (expense):   |                    |           |                   |            |
| Interest expense   | (2,623 )           | (1,922 )  | (8,395 )          | (4,657 )   |
| Change in fair value of interest rate derivatives                                    | (57 )              | (22 )     | (160 )            | 315        |
| Other income (expense)   | 6,554              | 42        | 6,479             | 87         |
| Total nonoperating income (expense)  | 3,874              | (1,902 )  | (2,076 )          | (4,255 )   |
| Net income (loss) before income tax expense  | 9,124              | 456       | 8,860             | (402 )     |
| Income tax expense   | (74 )              | (42 )     | (330 )            | (299 )     |
| Net income (loss)  | 9,050              | 414       | 8,530             | (701 )     |
| Net (income) loss attributable to noncontrolling interests                           | (61 )              | (6 )      | (38 )             | (1 )       |
| Dividends on preferred stock   | (1,150 )           | -         | (2,964 )          | -          |
| Net income (loss) attributable to common stockholders                                | \$7,839            | \$ 408    | \$5,528           | \$ (702 )  |
| Net income (loss) per share attributable to common stockholders - basic and diluted: | \$0.20             | \$ 0.01   | \$0.16            | \$ (0.02 ) |
| Weighted-average common shares outstanding:  |                    |           |                   |            |
| Basic  | 38,479             | 30,724    | 33,514            | 30,717     |
| Diluted  | 38,915             | 31,160    | 33,950            | 30,717     |

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|  |          |         |          |           |
|--|----------|---------|----------|-----------|
| Distributions per common share                                       | \$0.16   | \$ 0.16 | \$0.48   | \$ 0.48   |
| Condensed consolidated statements of comprehensive income (loss):    |          |         |          |           |
| Net income (loss)  | \$9,050  | \$ 414  | \$8,530  | \$ (701 ) |
| Change in fair value of interest rate derivatives                    | 100      | (33 )   | 221      | (253 )    |
| Comprehensive income (loss)  | 9,150    | 381     | 8,751    | (954 )    |
| Comprehensive (income) loss attributable to noncontrolling interests | (61 )    | (6 )    | (40 )    | (1 )      |
| Dividends on preferred stock   | (1,150 ) | -       | (2,964 ) | -         |
| Comprehensive income (loss) attributable to common stockholders      | \$7,939  | \$ 375  | \$5,747  | \$ (955 ) |

See accompanying notes to condensed consolidated financial statements.

**CAMPUS CREST COMMUNITIES, INC.****CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY****(In thousands)****(Unaudited)**

|   | Campus Crest Communities, Inc. Stockholders |                                       |   |                                       |   |                          |              |  |
|---|---|---------------------------------------|---|---------------------------------------|---|--------------------------|--------------|--|
|   | Series A                                    | Common and Redeemable Preferred Stock | Additional Common and Preferred Paid-in Capital | Accumulated Deficit and Distributions | Accumulated Other Comprehensive Income (Loss) | Noncontrolling Interests | Total Equity |  |
| Balance at December 31, 2011  | \$-   | \$ 307                                | \$ 248,599                                      | \$ (21,410 )                          | \$ (387 )                                     | \$ 4,026                 | \$ 231,135   |  |
| Issuance of preferred stock   | 23  | -                                     | 54,870  | -                                     | -   | -                        | 54,893       |  |
| Issuance of common stock  | -   | 75                                    | 72,087  | -                                     | -   | -                        | 72,162       |  |
| Issuance of restricted stock  | -   | 4                                     | (4 )  | -                                     | -   | -                        | -            |  |
| Amortization of restricted stock awards and operating partnership units | -   | -                                     | 1,243   | -                                     | -   | 468                      | 1,711        |  |
| Dividends on preferred stock  | -   | -                                     | -   | (2,964 )                              | -   | -                        | (2,964 )     |  |
| Dividends on common stock   | -   | -                                     | -   | (16,106 )                             | -   | -                        | (16,106 )    |  |
| Dividends to noncontrolling interests                                   | -   | -                                     | -   | -                                     | -   | (211 )                   | (211 )       |  |
| Net income (loss)   | -   | -                                     | -   | 8,492                                 | -   | 38                       | 8,530        |  |
| Other comprehensive income (loss)                                       | -   | -                                     | -   | -                                     | 219   | 2                        | 221          |  |
| Balance at September 30, 2012   | \$ 23                                       | \$ 386                                | \$ 376,795                                      | \$ (31,988 )                          | \$ (168 )                                     | \$ 4,323                 | \$ 349,371   |  |

See accompanying notes to condensed consolidated financial statements.

**CAMPUS CREST COMMUNITIES, INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(In thousands)****(Unaudited)**

|  | Nine Months Ended |           |
|--|-------------------|-----------|
|  | September         | September |
|  | 30, 2012          | 30, 2011  |
| Operating activities:  |                   |           |
| Net income (loss)  | \$8,530           | \$ (701 ) |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: |                   |           |
| Depreciation and amortization  | 17,528            | 15,239    |
| Amortization of deferred financing costs   | 2,341             | 898       |
| Gain on purchase of previously unconsolidated entities   | (6,554 )          | -         |
| Loss on disposal of assets   | 149               | 58        |
| Provision for bad debts  | 1,345             | 832       |
| Change in non-cash portion of fair value of unhedged derivatives                                   | -                 | (337 )    |
| Equity in (earnings) loss of unconsolidated entities   | 135               | 944       |
| Distributions of accumulated earnings from unconsolidated entities                                 | 237               | -         |
| Compensation expense related to share based payments   | 762               | 195       |
| Changes in operating assets and liabilities:   |                   |           |
| Restricted cash  | (1,876 )          | 953       |
| Student receivables  | (1,966 )          | (1,456 )  |
| Construction billings  | (6,429 )          | (1,810 )  |
| Accounts payable and accrued expenses  | 5,293             | 3,322     |
| Other  | 3,447             | 3,667     |
| Net cash provided by (used in) operating activities  | 22,942            | 21,804    |
| Investing activities:  |                   |           |
| Investments in development in process  | (84,174 )         | (85,917 ) |
| Investments in student housing properties  | (6,074 )          | (2,945 )  |
| Acquisition of previously unconsolidated entities, net of cash acquired                            | (15,877 )         | -         |
| Investments in unconsolidated entities   | (3,072 )          | (3,263 )  |
| Distributions from unconsolidated entities   | 2,994             | 6,175     |
| Purchase of corporate furniture, fixtures and equipment  | (980 )            | (176 )    |
| Net cash provided by (used in) investing activities  | (107,183)         | (86,126 ) |
| Financing activities:  |                   |           |
| Proceeds from mortgage and construction notes payable  | 79,121            | 88,338    |
| Repayments of mortgage and construction notes payable  | (76,722 )         | -         |
| Proceeds from line of credit and other debt  | 43,900            | 44,500    |
| Repayments of line of credit and other debt  | (66,078 )         | (46,000 ) |
| Debt issuance costs  | (1,028 )          | (1,338 )  |
| Proceeds from sale of preferred stock  | 57,500            | -         |

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|   |           |           |
|---|-----------|-----------|
| Proceeds from sale of common stock  | 75,573    | -         |
| Payment of offering costs   | (5,701 )  | (134 )    |
| Dividends on common stock   | (14,858 ) | (13,719 ) |
| Dividends on preferred stock  | (2,006 )  | -         |
| Dividends to noncontrolling interests   | (211 )    | (195 )    |
| Net cash provided by (used in) financing activities                                   | 89,490    | 71,452    |
| Net change in cash and cash equivalents   | 5,249     | 7,130     |
| Cash and cash equivalents at beginning of period                                      | 10,735    | 2,327     |
| Cash and cash equivalents at end of period  | \$ 15,984 | \$ 9,457  |
| Supplemental disclosure of cash flow information:                                     |           |           |
| Cash paid for interest  | \$ 7,820  | \$ 4,707  |
| Cash paid for income taxes  | 571       | 2         |
| Non-cash investing and financing activity:  |           |           |
| Assets placed in service  | \$ 95,064 | \$ 85,922 |
| Assumption of mortgage debt related to purchase of previously unconsolidated entities | 27,299    | -         |
| Contribution of development in process to unconsolidated entity                       | 2,893     | 7,666     |
| Change in payables related to dividends to stockholders                               | 2,206     | 1,017     |
| Change in payables related to capital expenditures                                    | 1,781     | 12,624    |
| Change in payables related to dividends to noncontrolling interests                   | -         | 15        |
| Assumption of bonds related to land purchase  | -         | 2,552     |

See accompanying notes to condensed consolidated financial statements.

**CAMPUS CREST COMMUNITIES, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****1. Organization and Description of Business**

Campus Crest Communities, Inc., together with its subsidiaries, is a self-managed, self-administered and vertically-integrated real estate investment trust (“REIT”) focused on developing, building, owning and managing high-quality, resident life focused student housing properties in the United States. We operate our business through Campus Crest Communities Operating Partnership, LP (the “Operating Partnership”) and our subsidiaries. All references to “we,” “us,” “our,” the “Company” and “Campus Crest” refer to Campus Crest Communities, Inc. and our consolidated subsidiaries, including the Operating Partnership.

We have made an election to qualify, and we believe we are operating so as to qualify, as a REIT under Sections 856 through 859 of the Internal Revenue Code of 1986, as amended (the “Internal Revenue Code”). As a REIT, we generally will not be subject to U.S. federal income tax to the extent that we meet the organizational and operational requirements and our distributions equal or exceed taxable income. For all periods subsequent to the REIT election, we have met the organizational and operational requirements and distributions have exceeded net taxable income.

We have made the election to treat Campus Crest TRS Holdings, Inc. (“TRS Holdings”), our wholly-owned subsidiary, which holds our development, construction and management companies that provide services to entities in which we do not own 100% of the equity interests, as a taxable REIT subsidiary (“TRS”). As a TRS, the operations of TRS Holdings and its subsidiaries are generally subject to federal, state and local income and franchise taxes.

At September 30, 2012, we had an ownership interest in 39 operating properties comprising approximately 20,884 beds. Our portfolio consists of the following:

|                         | Properties<br>in<br>Operation | Properties<br>under<br>Construction |     |
|-------------------------|-------------------------------|-------------------------------------|-----|
| Consolidated entities   | 32                            | 3                                   | (1) |
| Unconsolidated entities | 7                             | 2                                   | (2) |
| Total                   | 39                            | 5                                   |     |

Includes three student housing properties with completion targeted for the 2013-2014 academic year, The Grove at  
(1)Fort Collins, located in Colorado, The Grove at Muncie, located in Indiana and The Grove at Pullman, located in  
Washington.

Includes two student housing properties with completion targeted for the 2013-2014 academic year, The Grove at  
(2)Norman, located in Oklahoma and The Grove at State College, located in Pennsylvania. Subsequent to quarter end,  
we reached an agreement with HSRE to develop/construct a joint venture property in Indiana, Pennsylvania. See  
Note 13 for further discussion.

## **2. Summary of Significant Accounting Policies**

### ***Basis of Presentation***

The accompanying condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”), as well as instructions to Form 10-Q, and represent our financial position, results of operations and cash flows. Third party equity interests in the Operating Partnership are reflected as noncontrolling interests in our condensed consolidated financial statements. We also have interests in unconsolidated real estate ventures which have ownership in several property owning entities that are accounted for under the equity method. All significant intercompany balances and transactions have been eliminated. Certain prior period amounts have been reclassified to conform to the current period presentation.

The unaudited interim condensed consolidated financial statements should be read in conjunction with the our audited consolidated financial statements and accompanying notes for the year ended December 31, 2011 included in our Annual Report on Form 10-K for the year ended December 31, 2011 filed with the Securities and Exchange Commission. The results of operations and cash flows for any interim period are not necessarily indicative of results for other interim periods or the full year.

### ***Use of Estimates***

The preparation of condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant assumptions and estimates are used by management in recognizing construction and development revenue under the percentage of completion method, useful lives of student housing properties, valuation of investment in real estate, allocation of purchase price to newly acquired student housing properties, fair value of financial assets and liabilities, including derivatives, and allowance for doubtful accounts. Actual results could differ from those estimates.

*Investment in Real Estate*

Investment in real estate is recorded at historical cost. Major improvements that extend the life of an asset are capitalized and depreciated over a period equal to the shorter of the life of the improvement or the remaining useful life of the asset. The cost of ordinary repairs and maintenance are charged to expense when incurred.

Depreciation and amortization are recorded on a straight-line basis over the estimated useful lives of the assets as follows:

|                                    |            |
|------------------------------------|------------|
| Buildings                          | 40 years   |
| Improvements                       | 20 years   |
| Furniture, fixtures, and equipment | 3-10 years |

The cost of buildings and improvements includes all pre-development, entitlement and project costs directly associated with the development and construction of a real estate project, including interest, property taxes, the amortization of deferred financing costs recognized while the project is under construction, as well as certain internal costs related to the development and construction of our student housing properties. All costs are capitalized as development in process until the asset is ready for its intended use, which is typically at the completion of the project. Upon completion, costs are transferred into the applicable asset category and depreciation commences. Interest totaling approximately \$0.6 million and \$2.0 million was capitalized during the three and nine months ended September 30, 2012, respectively, and approximately \$0.4 million and \$1.1 million were capitalized during the three and nine months ended September 30, 2011, respectively.

Pre-development costs are capitalized until such time that management believes it is no longer probable that a contract will be executed and/or construction will commence. Because we frequently incur these pre-development expenditures before a financing commitment and/or required permits and authorizations have been obtained, we bear the risk of loss of these pre-development expenditures if financing cannot ultimately be arranged on acceptable terms or we are unable to successfully obtain the required permits and authorizations. As such, management evaluates the status of projects where we have not yet acquired the target property or where we have not yet commenced construction on a periodic basis and writes off any pre-development costs related to projects whose current status indicates the acquisition or commencement of construction is not probable. Such write-offs are included within operating expenses in the accompanying condensed consolidated statement of operations and comprehensive income (loss). As of September 30, 2012 and December 31, 2011, we have deferred approximately \$6.1 million and \$2.7 million, respectively, in pre-development costs related to development projects that have not yet been acquired or for which construction has not commenced. Such costs are included in development in process on the accompanying condensed consolidated balance sheets.

Management assesses whether there has been impairment in the value of our investment in real estate whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of investment in real estate is measured by a comparison of the carrying amount of a student housing property to the estimated future undiscounted cash flows expected to be generated by the property. Impairment is recognized when estimated future undiscounted cash flows, including proceeds from disposition, are less than the carrying value of the property. The estimation of future undiscounted cash flows is inherently uncertain and relies on assumptions regarding current and future economics and market conditions. If such conditions change, then an adjustment reducing the carrying value of our long-lived assets could occur in the future period in which conditions change. To the extent that a property is impaired, the excess of the carrying amount of the property over its estimated fair value is recorded as an

impairment charge. Fair value is determined based upon the discounted cash flows of the property, quoted market prices or independent appraisals, as considered necessary.

### ***Property Acquisitions***

We allocate the purchase price of acquired properties to net tangible and identified intangible assets and liabilities based on the relative fair values of those assets and liabilities. Fair value estimates are based on information obtained from independent appraisals, market data, information obtained during due diligence and information related to the marketing and leasing at the specific property. The value of in-place leases is based on the difference between (i) the property valued with existing in-place leases adjusted to market rental rates and (ii) the property valued “as-if” vacant. As lease terms are typically one year or less, rates on in-place leases generally approximate market rental rates. Factors considered in the valuation of in-place leases include estimates of the carrying costs during the expected lease-up period considering current market conditions, nature of the tenancy and costs to execute similar leases. Carrying costs include estimates of lost rentals at market rates during the expected lease-up period, net of variable operating expenses. The value of in-place leases is amortized on a straight-line basis over the remaining initial term of the respective leases, generally less than one year. The purchase price of property acquisitions is not expected to be allocated to tenant relationships considering the terms of the leases and the expected levels of renewals.

### ***Deferred Financing Costs***

We defer costs incurred in obtaining financing and amortize the costs over the terms of the related loans. Upon repayment of the underlying debt agreement, any unamortized costs are charged to earnings. Deferred financing costs, net of accumulated amortization, are included in other assets on the accompanying condensed consolidated balance sheets.

### ***Noncontrolling Interests***

Noncontrolling interests represent the portion of equity in our consolidated subsidiaries which is not attributable to the stockholders. Accordingly, noncontrolling interests are reported as a component of equity, separate from stockholders' equity, in the accompanying condensed consolidated balance sheets. On the condensed consolidated statements of operations and comprehensive income (loss), operating results are reported at their consolidated amounts, including both the amount attributable to us and to noncontrolling interests.

### ***Real Estate Ventures***

We hold interests in our properties, both under development and in operation, through interests in both consolidated and unconsolidated real estate ventures. We assess our investments in real estate ventures in accordance with applicable guidance under U.S. GAAP to determine if a venture is a Variable Interest Entity (“VIE”). We consolidate entities that are defined as VIEs and for which we are determined to be the primary beneficiary. In instances where we are not the primary beneficiary, we use the equity method of accounting. Entities that are not defined as VIEs are consolidated where we are the general partner (or the equivalent) and the limited partners (or the equivalent) in such investments do not have rights which would preclude control.

For entities where we are the general partner (or the equivalent), but do not control the real estate venture, as the other partners (or the equivalent) hold substantive participating rights, we use the equity method of accounting. For entities where we are a limited partner (or the equivalent), management considers factors such as ownership interest, voting control, authority to make decisions and contractual and substantive participating rights of the partners (or the equivalent) to determine if the presumption that the general partner controls the entity is overcome. In instances where these factors indicate we control the entity, we consolidate the entity; otherwise we record our investment using the equity method of accounting.

Under the equity method, investments are initially recognized in the balance sheet at cost and are subsequently adjusted to reflect our proportionate share of net earnings or losses of the entity, distributions received, contributions and certain other adjustments, as appropriate. Any difference between the carrying amount of these investments on our balance sheet and the underlying equity in net assets is amortized as an adjustment to equity in earnings (loss) of unconsolidated entities. When circumstances indicate there may have been a loss in value of an equity method investment, and we determine the loss in value is other than temporary, we recognize an impairment charge to reflect the investment at fair value.

### ***Segments***

We have identified two reportable business segments: (i) student housing operations and (ii) development, construction and management services. We evaluate the performance of our operating segments based on operating income (loss). All inter-segment sales pricing is based on current market conditions. Operating segments that do not individually meet the aggregation criteria described in the accounting guidance may be combined with other operating segments that do not individually meet the aggregation criteria to form a separate reportable segment. Unallocated corporate amounts include general expenses associated with managing our two reportable operating segments.

### ***Student Housing Revenue***

Students are required to execute lease contracts with payment schedules that vary from annual to monthly payments. We recognize revenues on a straight-line basis over the term of the lease contracts. Generally, each executed contract is required to be accompanied by a signed parental guaranty. Amounts received in advance of the occupancy period or prior to the contractual due date are recorded as deferred revenues and included in other liabilities on the accompanying condensed consolidated balance sheets. Service revenue is recognized when earned.

### ***Development, Construction and Management Services***

Development and construction service revenue is recognized using the percentage of completion method, as determined by construction costs incurred relative to total estimated construction costs. Any changes in significant judgments and/or estimates used in determining construction and development revenue could significantly change the timing or amount of construction and development revenue recognized.

Development and construction service revenue is recognized for contracts with entities we do not consolidate. For projects where the revenue is based on a fixed price, any cost overruns incurred during construction, as compared to the original budget, will reduce the net profit ultimately recognized on those projects. Profit derived from these projects is eliminated to the extent of the Company's interest in the unconsolidated entity. Any incentive fees, net of the impact of our ownership interest if the entity is unconsolidated, are recognized when the project is complete and performance has been agreed upon by all parties, or when performance has been verified by an independent third party. When total development or construction costs at completion exceed the fixed price set forth within the related contract, such cost overruns are recorded as additional investment in the unconsolidated entity. Entitlement fees, where applicable, are recognized when earned based on the terms of the related contracts.

Management fees, net of elimination to the extent of our ownership in an unconsolidated entity, are recognized when earned in accordance with each management contract. Incentive management fees are recognized when the incentive criteria are met.

### ***Allowance for Doubtful Accounts***

Allowances for student receivables are established when management determines that collections of such receivables are doubtful. Balances are considered past due when payment is not received on the contractual due date. When management has determined that receivables are uncollectible, they are written off against the allowance for doubtful accounts.

### ***Derivative Instruments and Hedging Activities***

We enter into interest rate cap and interest rate swap agreements to manage floating interest rate exposure with respect to amounts borrowed, or forecasted to be borrowed, under credit facilities. These contracts effectively exchange existing or forecasted obligations to pay interest based on floating rates for obligations to pay interest based on fixed rates.

All derivative instruments are recognized as either assets or liabilities on the condensed consolidated balance sheets at their respective fair values. Changes in fair value are recognized either in earnings or as other comprehensive income (loss), depending on whether the derivative has been designated as a cash flow hedge and whether it qualifies as part of a hedging relationship, the nature of the exposure being hedged and how effective the derivative is at offsetting movements in underlying exposure. We discontinue hedge accounting when: (i) we determine that the derivative is no longer effective in offsetting changes in the cash flows of a hedged item; (ii) the derivative expires or is sold, terminated or exercised; (iii) it is no longer probable that the forecasted transaction will occur; or (iv) management determines that designating the derivative as a hedging instrument is no longer appropriate. In situations in which hedge accounting is not initially designated, or is discontinued and a derivative remains outstanding, gains and losses related to changes in the fair value of the derivative instrument are recorded in current-period earnings as a component of the change in fair value of interest rate derivatives line item on the accompanying condensed consolidated statements of operations and comprehensive income (loss). Also included within this line item are any required monthly settlements on the swaps as well as any cash settlements paid.

### ***Fair Value of Financial Instruments***

Financial instruments consist primarily of cash, cash equivalents, restricted cash, student receivables, interest rate caps, interest rate swaps, accounts payable, mortgages, construction loans and lines of credit. The carrying value of cash, cash equivalents, restricted cash, student receivables and accounts payable are representative of their respective fair values due to the short-term nature of these instruments. The estimated fair value of the revolving line of credit approximates the outstanding balance due to the frequent market based re-pricing of the underlying variable rate index. The estimated fair values of mortgages and construction loans are determined by comparing current borrowing rates and risk spreads offered in the market to the stated interest rates and spreads on our current mortgages and construction loans. The fair values of mortgage and construction loans are disclosed in Note 6.

The fair value of the interest rate caps and swaps are determined using widely accepted valuation techniques including discounted cash flow analysis on the expected cash flows of the derivative. This analysis reflects the contractual terms of the derivative, including the period to maturity, and uses observable market-based inputs, including interest rate curves, implied volatilities and counterparty creditworthiness. Fair value guidance for financial assets and liabilities which are recognized and disclosed in the condensed consolidated financial statements on a recurring basis and nonfinancial assets on a nonrecurring basis establishes a fair value hierarchy that prioritizes the inputs to valuation

techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

Level 1 — Observable inputs, such as quoted prices in active markets at the measurement date, for identical, unrestricted assets or liabilities.

Level 2 — Other inputs that are observable directly or indirectly, such as quoted prices in markets that are not active or inputs which are observable, either directly or indirectly, for substantially the full term of the asset or liability.

Level 3 — Unobservable inputs for which there is little or no market data and which we make our own assumptions about how market participants would price the asset or liability.

Fair value is defined as the price that would be received when selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). In instances where inputs used to measure fair value fall into different levels of the fair value hierarchy, the level in the fair value hierarchy within which the fair value measurement in its entirety has been determined is based on the lowest level input significant to the fair value measurement in its entirety. Our assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

### *Income Taxes*

We have made an election to qualify, and believe we are operating so as to qualify, as a REIT under Sections 856 through 859 of the Internal Revenue Code. As a REIT, we generally will not be subject to U.S. federal income tax on taxable income that we distribute currently to our stockholders. Our qualification as a REIT depends upon our ability to meet on a continuing basis, through actual investment and operating results, various complex requirements under the Internal Revenue Code relating to, among other things, the sources of our gross income, the composition and values of our assets, our distribution levels and the diversity of ownership of our stock. We believe that we are organized in conformity with the requirements for qualification and taxation as a REIT under the Internal Revenue Code and that our intended manner of operation will enable us to meet the requirements for qualification and taxation as a REIT.

As a REIT, we generally will not be subject to U.S. federal and state income tax on taxable income that we distribute currently to our stockholders. If we fail to qualify as a REIT in any taxable year and do not qualify for certain statutory relief provisions, we will be subject to U.S. federal income tax at regular corporate rates and generally will be precluded from qualifying as a REIT for the subsequent four taxable years following the year during which we lost our REIT qualification. Accordingly, our failure to qualify as a REIT could materially and adversely affect us,

including our ability to make distributions to our stockholders in the future.

We have made the election to treat TRS Holdings, our subsidiary which holds our development, construction and management companies which provide services to entities in which we do not own 100% of the equity interests, as a TRS. As a TRS, the operations of TRS Holdings and its subsidiaries are generally subject to federal, state and local income and franchise taxes. Our TRS accounts for its income taxes in accordance with U.S. GAAP, which includes an estimate of the amount of taxes payable or refundable for the current year and deferred tax liabilities and assets for the future tax consequences of events that have been recognized in our financial statements or tax returns. Deferred tax assets and liabilities of the TRS entities are recognized based on the difference between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using enacted tax rates in effect in the years in which those temporary differences are expected to reverse.

We follow a two-step approach for evaluating uncertain tax positions. Recognition (step one) occurs when we conclude that a tax position, based solely on its technical merits, is more-likely-than-not (a likelihood of more than 50 percent) to be sustained upon examination. Measurement (step two) determines the amount of benefit that more-likely-than-not will be realized upon settlement. Derecognition of a tax position that was previously recognized would occur when we subsequently determined that a tax position no longer met the more-likely-than-not threshold of being sustained. The use of a valuation allowance as a substitute for derecognition of tax positions is prohibited.

### ***Comprehensive Income (Loss)***

Comprehensive income (loss) includes net income (loss) and other comprehensive income (loss), which consists of unrealized gains (losses) on derivative instruments. Comprehensive income (loss) is presented in the accompanying condensed consolidated statements of operations and comprehensive income (loss), and accumulated other comprehensive income (loss) is displayed as a separate component of stockholders' equity.

### ***Stock-Based Compensation***

We grant restricted stock and restricted common units of limited partnership interests in the Operating Partnership ("OP Units") that vest over either a three or five year period. A restricted stock or OP Unit award is an award of our common stock or OP Units that are subject to restrictions on transferability and other restrictions determined by our compensation committee at the date of grant. A grant date is established for a restricted stock award or restricted OP Unit award upon approval from our compensation committee and board of directors. The restrictions may lapse over a specified period of employment or the satisfaction of pre-established criteria as our compensation committee may determine. Except to the extent restricted under the award agreement, a participant awarded restricted stock or OP Units has all the rights of a stockholder or OP Unit holder as to these shares or units, including the right to vote and the right to receive dividends or distributions on the shares or units. The fair value of the award is determined based on the market value of our common stock on the grant date and is recognized over the applicable vesting period for the entire award with cost recognized at the end of any period being at least equal to the shares that were then vested.

***Recent Accounting Pronouncements***

In January 2012, we adopted the FASB guidance which eliminates the option to report other comprehensive income and its components in the statement of changes in equity. Entities are now required to present the components of net income and other comprehensive income in either a single continuous statement or two separate consecutive statements. The standard did not change the recognition or measurement of net income or comprehensive income, and we elected to present the components of net income and other comprehensive income as a single continuous statement. In December 2011, the FASB issued an accounting standards update to defer those changes that relate only to the presentation of reclassification adjustments in the statement of operations.

**3. Student Housing Properties**

The following is a summary of the gross carrying value of our student housing properties for the periods presented (in thousands):

|                                   | September<br>30, 2012 | December<br>31, 2011 |
|-----------------------------------|-----------------------|----------------------|
| Land                              | \$ 53,864             | \$ 37,646            |
| Buildings and improvements        | 551,545               | 423,237              |
| Furniture, fixtures and equipment | 61,773                | 51,344               |
| Student housing properties        | \$ 667,182            | \$ 512,227           |

#### 4. Property Acquisitions

In July 2012, we acquired the remaining ownership interests in The Grove at Moscow, Idaho, and The Grove at Valdosta, Georgia, for approximately \$16.8 million, and repaid the mortgage debt secured by these properties. Prior to this transaction, The Grove at Moscow, Idaho, was owned by HSRE-Campus Crest I, LLC, of which we owned 49.9% and Harrison Street Real Estate (“HSRE”) owned the remaining 50.1%, and The Grove at Valdosta, Georgia, was owned by HSRE-Campus Crest IV, LLC, of which we owned 20.0% and HSRE owned the remaining 80.0%. Prior to this transaction, we accounted for our ownership interest in the two properties under the equity method. In connection with recording our purchase of the remaining interests in the properties, we recognized a net gain of approximately \$6.6 million related to the remeasurement to fair value of our previously held equity interests in the properties at the acquisition date. The gain is included in the other income (expense) line item in the accompanying condensed consolidated statements of operations and comprehensive income (loss).

The following table is an allocation of the purchase price (in thousands):

|  |          |
|--|----------|
| Land   | \$3,410  |
| Buildings and improvements                               | 50,051   |
| Furniture and fixtures                                   | 1,713    |
| In-place leases  | 233      |
| Other  | 974      |
| Debt assumed at time of purchase                         | (27,299) |
|  | 29,083   |
| Implied fair value of our interests prior to transaction | (12,320) |
|  | \$16,763 |

#### 5. Investment in Unconsolidated Entities

We have investments in real estate ventures with HSRE which we do not consolidate. These joint ventures are engaged primarily in developing, constructing, owning and managing student housing properties in the United States. Both we and our joint venture partners hold joint approval rights for major decisions, including those regarding property acquisition and disposition as well as property operation. As such, we hold noncontrolling interests in these joint ventures and account for them under the equity method of accounting.

We act as the operating member and day-to-day manager for these joint ventures and as such are entitled to receive fees for providing development and construction services (as applicable) and management services. We recognized

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revenues of approximately \$12.1 million and \$43.2 million for the three and nine months ended September 30, 2012, respectively, and revenues of approximately \$4.8 million and \$26.4 million for the three and nine months ended September 30, 2011, respectively. Such fees are reflected in development, construction and management services in the accompanying condensed consolidated statements of operations and comprehensive income (loss).

We are a guarantor of the construction notes payable for these joint ventures. A summary of our unconsolidated investments as of September 30, 2012 is as follows (dollars in thousands):

| Unconsolidated Entities       | Our Ownership | Number of Properties | Total Investment | Debt               |               | Weighted Average Interest Rate <sup>(1)</sup> | Maturity Date Range                    |
|-------------------------------|---------------|----------------------|------------------|--------------------|---------------|---|--|
|                               |               |                      |                  | Amount Outstanding | Interest Rate |   |  |
| HSRE-Campus Crest I, LLC      | 49.9          | %                    | 3                | \$ 11,357          | \$34,085      | 2.72 %  | 11/09/2012 – 01/09/2013 <sup>(2)</sup> |
| HSRE-Campus Crest IV, LLC     | 20.0          | %                    | 1                | 2,210              | 16,979        | 5.75 % <sup>(3)</sup>                         | 12/1/2013                              |
| HSRE-Campus Crest V, LLC      | 10.0          | %                    | 3                | 3,373              | 40,802        | 2.96 %  | 12/20/2014 – 01/05/2015                |
| HSRE-Campus Crest VI, LLC     | 20.0          | %                    | 2 <sup>(4)</sup> | 1,654              | -             | (5)   | 5/8/2015 – 9/30/2015                   |
| Total Unconsolidated Entities |               |                      | 9                | \$ 18,594          | \$91,866      | 3.39 %  |  |

(1) Variable interest rate(s), except where otherwise noted.

(2) In October 2012, we exercised a twelve month extension option which extended the maturity date range to 11/09/2013 - 01/09/2014.

(3) Comprised of one fixed rate loan.

(4) Subsequent to quarter end, we reached an agreement with HSRE to develop/construct a joint venture property in Indiana, Pennsylvania. See Note 13 for further discussion.

(5) Interest rate as of September 30, 2012 not applicable as the outstanding loan balances were zero.

In March 2012, we entered into a new joint venture with HSRE, HSRE-Campus Crest VI, LLC (“HSRE VI”), to develop and operate additional student housing properties. As of September 30, 2012, we owned a 20.0% interest in this venture and affiliates of HSRE own the remaining 80.0%. HSRE VI is currently constructing two new student housing properties, The Grove at Norman, located in Oklahoma, and The Grove at State College, located in Pennsylvania. Both projects are targeted for completion for the 2013-2014 academic year. We made contributions to

HSRE VI, net of cash received, of approximately \$1.7 million during the nine months ended September 30, 2012, consisting of cash and assigned interest in both projects.

The following is a summary of the financial position of our unconsolidated entities in their entirety, not only our interest in the entities, for the periods presented (amounts in thousands):

|  | September<br>30, 2012 | December<br>31, 2011 |
|--|-----------------------|----------------------|
| <b>Assets</b>  |                       |                      |
| Student housing properties, net  | \$ 143,675            | \$ 123,552           |
| Development in process   | 13,816                | 15,243               |
| Other assets, net  | 7,943                 | 5,696                |
| Total assets   | \$ 165,434            | \$ 144,491           |
| <b>Liabilities and Equity</b>  |                       |                      |
| Construction notes payable   | \$ 91,866             | \$ 82,719            |
| Other liabilities  | 22,094                | 14,402               |
| Owners' equity   | 51,474                | 47,370               |
| Total liabilities and equity   | \$ 165,434            | \$ 144,491           |
| Share of historical owners' equity   | \$ 12,740             | \$ 11,101            |
| Preferred investment <sup>(1)</sup>  | 9,146                 | 13,231               |
| Net difference in carrying value of investment versus net book value of underlying net assets <sup>(2)</sup> | (3,292 )              | (3,280 )             |
| Carrying value of investment in unconsolidated entities  | \$ 18,594             | \$ 21,052            |

As of September 30, 2012, we held Class B interests in The Grove at San Angelo and The Grove at Conway of approximately \$9.1 million. At December 31, 2011, we also held Class B interests in The Grove at Moscow and <sup>(1)</sup>The Grove at Valdosta of approximately \$4.1 million. These preferred interests entitle us to a 9.0% return on our investment but otherwise do not change our effective ownership interest in these properties. In July 2012, we acquired 100% of the remaining interests in The Grove at Moscow from HSRE-Campus Crest I, LLC and The Grove at Valdosta from HSRE-Campus Crest IV, LLC (see Note 4).

This amount represents the aggregate difference between our historical cost basis and the basis reflected at the entity level, which is typically amortized over the life of the related asset. The basis differential occurs primarily <sup>(2)</sup>due to the difference between the allocated value to acquired entity interests and the venture's basis in those interests, the capitalization of additional investment in the unconsolidated entities and the elimination of service related revenue to the extent of our percentage ownership.

The following is a summary of the operating results for our unconsolidated entities in their entirety, not only our interest in the entities, for the periods presented (amounts in thousands):

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|  | <b>Three Months Ended</b> |                           | <b>Nine Months Ended</b>  |                           |
|--|---------------------------|---------------------------|---------------------------|---------------------------|
|  | <b>September 30, 2012</b> | <b>September 30, 2011</b> | <b>September 30, 2012</b> | <b>September 30, 2011</b> |
| Revenues   | \$ 4,162                  | \$ 5,038                  | \$ 13,337                 | \$ 12,547                 |
| Expenses:  |                           |                           |                           |                           |
| Operating expenses                                   | 2,159                     | 2,541                     | 7,242                     | 6,662                     |
| Interest expense                                     | 1,091                     | 1,867                     | 3,790                     | 4,811                     |
| Depreciation and amortization                        | 1,134                     | 1,348                     | 3,555                     | 3,586                     |
| Net income (loss)                                    | \$ (222 )                 | \$ (718 )                 | \$ (1,250 )               | \$ (2,512 )               |
| Company's share of net income (loss) <sup>(1)</sup>  | \$ (20 )                  | \$ (309 )                 | \$ (135 )                 | \$ (944 )                 |
| Income on preferred investments                      | 106                       | 76                        | 418                       | 185                       |
| Equity in earnings (loss) of unconsolidated entities | \$ 86                     | \$ (233 )                 | \$ 283                    | \$ (759 )                 |

<sup>(1)</sup> Amount differs from net loss multiplied by our ownership percentage due to the amortization of the aggregate difference between our historical cost basis and our basis reflected at the entity level.

## 6. Debt

The following is a summary of our mortgage and construction notes payable, the Credit Facility (defined below) and other debt for the periods presented (amounts in thousands):

|                                      | September<br>30, 2012 | December<br>31, 2011 |
|--------------------------------------|-----------------------|----------------------|
| Fixed-rate mortgage notes payable    | \$ 148,890            | \$ 109,276           |
| Variable-rate mortgage notes payable | 28,726                | 28,726               |
| Construction loans                   | 38,996                | 48,912               |
| Line of credit                       | 56,500                | 79,500               |
| Other debt                           | 3,374                 | 2,552                |
|                                      | \$ 276,486            | \$ 268,966           |

### *Line of Credit*

We have a revolving credit facility (the “Credit Facility”) with Citibank, N.A. and certain other parties thereto. The Credit Facility provides for borrowing capacity of up to \$200 million and includes an accordion feature that allows us to request an increase in the total commitments of an additional \$125 million to a total commitment of \$325 million. The Credit Facility matures in August 2014 and provides us a one-year extension option, subject to certain terms and conditions. Amounts outstanding under the Credit Facility bear interest at a floating rate equal to, at our election, the Eurodollar Rate or the Base Rate (each as defined in the Credit Facility) plus a spread. The spread depends upon our leverage ratio and ranges from 1.75% to 2.50% for Eurodollar Rate based borrowings and from 0.75% to 1.50% for Base Rate based borrowings. At September 30, 2012, the interest rate on the Credit Facility was 2.49%. Under the Credit Facility, our distributions may not exceed the greater of (i) 95.0% of our funds from operations or (ii) the amount required for us to qualify and maintain our status as a REIT. If a default or event of default occurs and is continuing, we may be precluded from making certain distributions (other than those required to allow us to qualify and maintain our status as a REIT).

As of September 30, 2012 and December 31, 2011, we had approximately \$56.5 million and \$79.5 million outstanding under the Credit Facility, respectively. At September 30, 2012, we had approximately \$91.8 million of borrowing capacity under the Credit Facility. Our ability to borrow under this facility is subject to our ongoing compliance with a number of customary financial covenants, as described further in our Annual Report on Form 10-K for the year ended December 31, 2011.

We and certain of our subsidiaries guarantee the obligations under the Credit Facility and we and certain of our subsidiaries have agreed to not encumber assets comprising the borrowing base used to determine the borrowing capacity under the Credit Facility. At September 30, 2012, we were in compliance with the above financial covenants with respect to the Credit Facility.

We are currently negotiating an amendment to increase the borrowing capacity as well as to modify certain other items under the Credit Facility. See Note 13 for further discussion.

***Mortgage Notes Payable***

Mortgage notes payable are collateralized by properties and their related revenue streams or properties under construction. The following presents our mortgage notes payable outstanding for the periods presented (dollar amounts in thousands):

|   | Face Amount | Principal Outstanding at 9/30/2012 | Principal Outstanding at 12/31/2011 | Stated Interest Rate             | Interest Rate at 9/30/2012 | Maturity Date | Amortization                 |
|---|-------------|------------------------------------|-------------------------------------|----------------------------------|----------------------------|---------------|------------------------------|
| <b>Construction loans</b>                           |             |                                    |                                     |                                  |                            |               |                              |
| The Grove at Orono                                  | \$ 15,206   | \$ 10,506                          | \$ -                                | LIBOR + 275 bps                  | 2.97 %                     | 6/30/2014     | Interest only                |
| The Grove at Auburn                                 | 16,294      | 13,157                             | -                                   | LIBOR + 295 bps                  | 3.17 %                     | 7/22/2014     | Interest only                |
| The Grove at Flagstaff                              | 19,842      | 15,331                             | -                                   | Prime + 25 bps / LIBOR + 250 bps | 3.06 %                     | 12/9/2014     | Interest only                |
| The Grove at Muncie                                 | 14,567      | 1                                  | -                                   | LIBOR + 225 bps                  | 2.47 %                     | 7/3/2015      | Interest only                |
| The Grove at Fort Collins                           | 19,073      | 1                                  | -                                   | LIBOR + 225 bps                  | 2.47 %                     | 7/3/2015      | Interest Only                |
| The Grove at Pullman                                | 16,016      | -                                  | -                                   | LIBOR + 220 bps                  | 2.42 %                     | 9/5/2015      | Interest Only                |
| Construction (three properties) <sup>(3)</sup>      | 37,523      | -                                  | 33,536                              | LIBOR + 475 bps                  | N/A <sup>(2)</sup>         | N/A           | <sup>(2)</sup> Interest only |
| <b>Mortgage loans</b>                               |             |                                    |                                     |                                  |                            |               |                              |
| The Grove at Huntsville and The Grove at Stateboro  | 28,726      | 28,726                             | 28,726                              | LIBOR + 250 bps                  | 2.72 %                     | 1/9/2013      | <sup>(1)</sup> Interest only |
| The Grove at Milledgeville                          | 16,250      | 16,089                             | 16,221                              | 6.12%                            | 6.12 %                     | 10/1/2016     | 30 years                     |
| The Grove at Carrollton and The Grove at Las Cruces | 29,790      | 29,495                             | 29,738                              | 6.13%                            | 6.13 %                     | 10/11/2016    | 30 years                     |
| The Grove at Asheville                              | 14,800      | 14,729                             | 14,800                              | 5.77%                            | 5.77 %                     | 4/11/2017     | 30 years                     |
| The Grove at Ellensburg                             | 16,125      | 16,125                             | 16,125                              | 5.10%                            | 5.10 %                     | 9/1/2018      | 30 years                     |
| The Grove at Nacogdoches                            | 17,160      | 17,160                             | 17,160                              | 5.01%                            | 5.01 %                     | 9/1/2018      | 30 years                     |
|   | 15,233      | 15,233                             | 15,233                              | 4.29%                            | 4.29 %                     | 10/1/2018     | 30 years                     |

|                                      |        |            |            |       |      |   |          |                         |
|--------------------------------------|--------|------------|------------|-------|------|---|----------|-------------------------|
| The Grove at Greeley                 |        |            |            |       |      |   |          |                         |
| The Grove at Clarksville             | 16,350 | 16,350     | -          | 4.03% | 4.03 | % | 7/1/2022 | 30 years <sup>(4)</sup> |
| The Grove at Columbia <sup>(3)</sup> | 23,775 | 23,709     | 15,375     | 3.83% | 3.83 | % | 7/1/2022 | 30 years                |
|                                      |        | \$ 216,612 | \$ 186,914 |       |      |   |          |                         |

(1) Note has a twelve-month extension option for a 1/9/2014 maturity date, subject to certain terms and conditions.

(2) Not applicable as the loan was paid off during the first quarter of 2012.

(3) Represents variable rate construction loan at December 31, 2011 which was paid off during the first quarter of 2012. Permanent financing was secured during the second quarter of 2012.

(4) Interest only through June 30, 2014. Beginning July 1, 2014, repayments are based on a 30-year amortization schedule.

During the period January 1, 2012 through February 13, 2012, we had an aggregate of approximately \$48.9 million outstanding under two construction loans that were utilized to partially finance the construction of four properties opened for the 2011-2012 academic year. These construction loans were repaid in full on February 13, 2012 with proceeds from the Series A Preferred Stock offering (see Note 9).

In June 2012, we closed on approximately \$40.1 million of Freddie Mac financings on The Grove at Clarksville, Tennessee, and The Grove at Columbia, Missouri. The proceeds from the financings were used to reduce outstanding balances under the Credit Facility.

In July 2012, we acquired the remaining ownership interests in The Grove at Moscow, Idaho, and The Grove at Valdosta, Georgia. See Note 4 regarding discussion of the acquisition. In connection with this acquisition, we repaid \$27.3 million in mortgage debt secured by these properties and expensed \$0.2 million in associated unamortized deferred financing costs, recorded within other income (expense) in the condensed consolidated statements of operations and comprehensive income (loss).

In July 2012, we closed on \$33.6 million of construction financings for our wholly-owned projects in Ft. Collins, Colorado and Muncie, Indiana, and in September 2012, we closed on \$16.0 million of construction financing for our wholly-owned project in Pullman, Washington. These projects are all anticipated to be delivered for the 2013-2014 academic year.

The estimated fair value of our mortgage and construction notes payable at September 30, 2012 and December 31, 2011 was approximately \$227.8 million and \$185.2 million, respectively. Estimated fair values are determined by comparing current borrowing rates and risk spreads to the stated interest rates and risk spreads (Level 2 fair value measurement).

Scheduled maturities of debt as of September 30, 2012 are as follows (in thousands):

|                      |           |
|----------------------|-----------|
| For the year ending: | Total     |
| Remainder of 2012    | \$283     |
| 2013                 | 30,779    |
| 2014                 | 98,083    |
| 2015                 | 2,574     |
| 2016                 | 45,720    |
| Thereafter           | 99,047    |
|                      | \$276,486 |

## 7. Derivative Instruments and Hedging Activities

We use, and expect to continue to use, significant variable rate debt to finance our construction of student housing properties. These debt obligations expose us to variability in cash flows due to fluctuations in interest rates. Management enters into derivative contracts to limit variability for a portion of our interest payments and to manage exposure to interest rate risk. We use derivative financial instruments, specifically interest rate caps and interest rate swaps, for non-trading purposes.

As of September 30, 2012 and December 31, 2011, the fair value of derivative contracts is recorded within other assets and other liabilities in the accompanying condensed consolidated balance sheets. The effective portion of changes in fair value of derivatives designated and that qualify as cash flow hedges is recorded in accumulated other comprehensive income (loss) and is subsequently reclassified to earnings in the period that the hedged forecasted transaction affects earnings. The ineffective portion of changes in fair value of derivatives designated and that qualify as cash flow hedges is recorded in earnings. If a derivative is either not designated as a hedge or if hedge accounting is discontinued, all changes in fair value of the derivative are recorded in earnings.

The fair value of interest rate swaps is determined using the market standard methodology of netting the discounted future fixed cash receipts (or payments) and the discounted expected variable cash payments (or receipts). The variable cash payments (or receipts) are based on an expectation of future interest rates (forward curves) derived from observable market interest rate curves. We incorporate credit valuation adjustments to appropriately reflect our own nonperformance risk and the respective counterparty's nonperformance risk in the fair value measurements. In adjusting the fair value of derivative contracts for the effect of nonperformance risk, we consider the impact of netting and any applicable credit enhancements, such as collateral postings, thresholds and guarantees. We consider such nonperformance risk insignificant to the overall determination of fair value.

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The following is a summary of the derivative instruments we entered into for the periods presented (amounts in thousands):

| Derivative Agreement | As of September 30, 2012 |               |                    |               | September 30, 2012 | December 31, 2011 |
|----------------------|--------------------------|---------------|--------------------|---------------|--------------------|-------------------|
|                      | Notional Amount          | Receive Rate  | Pay or Strike Rate | Maturity Date | Asset/Liability    | Asset/Liability   |
| Interest rate cap    | \$62,500                 | 1 Month LIBOR | 2.50 %             | March 2013    | \$- \$ -           | \$- \$ -          |
| Interest rate cap    | 18,761                   | 1 Month LIBOR | 1.25 %             | April 2013    | - -                | 4 -               |
| Interest rate swap   | 18,761                   | 1 Month LIBOR | 1.39 %             | April 2013    | - (129 )           | - (231 )          |
|                      |                          |               |                    |               | \$- \$ (129 )      | \$4 \$ (231 )     |

The following summarizes the effect of interest rate derivative instruments on the condensed consolidated statements of operations and comprehensive income (loss) for the periods presented (amounts in thousands):

|   | Amount of Income (Loss)<br>Recognized<br>on OCI Derivatives (Effective<br>Portion) |          |  |          |
|---|--|----------|--|----------|
|   | Three Months<br>Ended<br>September<br>30,<br>2012                                  |          | Nine Months<br>Ended<br>September<br>30,<br>2011 |          |
| Derivatives designated as cash flow hedges:                             |  |          |  |          |
| Caps  | \$-  | \$ (23 ) | \$(4 )   | \$ (97 ) |
| Swaps (receive float/pay fixed)   | 45   | (10 )    | 102  | 181      |
| Total effect of derivative instruments on<br>other comprehensive income | \$45   | \$ (33 ) | \$98   | \$ 84    |

|      | Amount of Income (Loss)<br>Reclassified from Accumulated<br>Other Comprehensive Income (Loss)<br>to Income (Loss) |      |  |      |
|------|---|------|--|------|
|      | Three Months<br>Ended<br>September<br>30,<br>2012   |      | Nine Months<br>Ended<br>September<br>30,<br>2011 |      |
| Swap | \$(55)  | \$ - | \$(123)  | \$ - |



|  | Location of Gain (Loss)<br>Recognized on Statements<br>of Operations | Three Months<br>Ended    |                       | Nine Months<br>Ended     |                       |
|--|--|--------------------------|-----------------------|--------------------------|-----------------------|
|  |  | September<br>30,<br>2012 | September<br>30, 2011 | September<br>30,<br>2012 | September<br>30, 2011 |
| Interest rate swaps (receive float/pay fixed):   |  |                          |                       |                          |                       |
| Monthly net settlements — cash settled   | Change in fair value of<br>interest rate derivatives                 | \$(57)                   | \$ (22 )              | \$(160)                  | \$ (22 )              |
| Mark to market adjustments — non-cash  | Change in fair value of<br>interest rate derivatives                 | -                        | -                     | -                        | 337                   |
| Total effect of derivative instruments on the<br>condensed consolidated statements of operations |  | \$(57)                   | \$ (22 )              | \$(160)                  | \$ 315                |

Interest rate caps and interest rate swaps measured at fair value for the periods presented are as follows (amounts in thousands):

|   | Quoted<br>Prices in<br>Active<br>Markets<br>for<br>Identical<br>Assets and<br>Liabilities<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) | Balance<br>at end<br>of<br>Period |
|---|--|---|--|-----------------------------------|
| September 30, 2012                      |  |   |  |                                   |
| Other assets - Interest rate caps       | \$ -   | \$ -  | \$ -   | \$ -                              |
| Other liabilities - Interest rate swaps | -  | (129 )  | -  | (129 )                            |
| December 31, 2011                       |  |   |  |                                   |
| Other assets - Interest rate caps       | -  | 4   | -  | 4                                 |
| Other liabilities - Interest rate swaps | -  | (231 )  | -  | (231 )                            |

## 8. Earnings per Share

Basic earnings per share is computed by dividing net income (loss) attributable to common stockholders by the weighted average number of shares of our common stock outstanding during the period. All unvested stock-based payment awards are included in the computation of basic earnings per share. The computation of diluted earnings per share includes common stock issuable upon the conversion of OP Units and restricted OP Units and other potentially

dilutive securities in the weighted average shares. Net income attributable to these noncontrolling interests is added back to net income (loss) available to common stockholders in the computation of diluted earnings per share.

Computations of basic and diluted income (loss) per share for the three and nine months ended September 30, 2012 and 2011 are as follows (amounts in thousands, except per share data):

|  | Three Months Ended |                    | Nine Months Ended  |                           |
|--|--------------------|--------------------|--------------------|---------------------------|
|  | September 30, 2012 | September 30, 2011 | September 30, 2012 | September 30, 2011        |
| Basic earnings:  |                    |                    |                    |                           |
| Net income (loss) attributable to common stockholders                              | \$7,839            | \$ 408             | \$5,528            | \$ (702 )                 |
| Diluted earnings:  |                    |                    |                    |                           |
| Net income (loss) attributable to common stockholders                              | 7,839              | 408                | 5,528              | (702 )                    |
| Add: net income (loss) attributable to noncontrolling interests                    | 61                 | 6                  | 38                 | - (1)                     |
| Net income (loss) attributable to common stockholders and participating securities | \$7,900            | \$ 414             | \$5,566            | \$ (702 )                 |
| Weighted average common shares outstanding:  |                    |                    |                    |                           |
| Basic  | 38,479             | 30,724             | 33,514             | 30,717                    |
| Incremental shares from assumed conversion - OP Units                              | 436                | 436                | 436                | - (1)                     |
| Diluted  | 38,915             | 31,160             | 33,950             | 30,717                    |
| Basic income (loss) per share  | \$0.20             | \$ 0.01            | \$0.16             | \$ (0.02 )                |
| Diluted income (loss) per share  | \$0.20             | \$ 0.01            | \$0.16             | \$ (0.02 ) <sup>(1)</sup> |

We reported a net loss for the nine months ended September 30, 2011. The effect of the inclusion of all potentially dilutive securities would be anti-dilutive when computing diluted earnings per share. Therefore, for the nine months<sup>(1)</sup> ended September 30, 2011, the computation of both basic and diluted earnings per share is the same. For the nine months ended September 30, 2011, 435,593 OP Units and restricted OP Units were not included in the computation of diluted earnings per share because the effect of their inclusion would be anti-dilutive.

## 9. Equity

### *Preferred Stock*

In February 2012, we closed an underwritten public offering of approximately 2.3 million shares of our 8.0% Series A Cumulative Redeemable Preferred Stock (“Series A Preferred Stock”), including approximately 0.3 million shares

issued and sold pursuant to the exercise of the underwriters' overallotment option in full. The shares of Series A Preferred Stock were issued at a public offering price of \$25.00 per share, for net proceeds of approximately \$54.9 million after deducting the underwriting discount and other offering costs. We used the net proceeds to repay approximately \$48.9 million of indebtedness outstanding under two construction loans which had been used as partial funding for the four properties that were delivered for the 2011-2012 academic year (see Note 6). We used the remaining proceeds for general corporate purposes, including funding properties currently under development.

### *Common Shares and OP Units*

An OP Unit and a share of our common stock have essentially the same economic characteristics as they share equally in the net income (loss) and distributions of the Operating Partnership. An OP Unit may be tendered for redemption for cash; however, we have sole discretion and a sufficient amount of authorized common stock to exchange OP Units for shares of common stock on a one-for-one basis. No OP Units have been exchanged or redeemed since our initial public offering.

In July 2012, we closed an underwritten public offering of approximately 7.5 million shares of common stock, including approximately 1.0 million shares issued and sold pursuant to the full exercise of the underwriters' option to purchase additional shares, resulting in net proceeds of approximately \$72.2 million. The net proceeds were used to: (1) acquire the remaining ownership interests in The Grove at Moscow, Idaho and The Grove at Valdosta, Georgia that we did not already own, and to repay the mortgage debt secured by these properties; and (2) to reduce borrowings outstanding under the Credit Facility. Remaining net proceeds were used for general corporate purposes.

As of September 30, 2012, there were approximately 39.0 million OP Units outstanding, of which approximately 38.6 million, or 98.9%, were owned by us and approximately 0.4 million, or 1.1%, were owned by other partners, including certain of our executive officers. As of September 30, 2012, the fair market value of the OP Units not owned by us was \$4.7 million, based on a market value of \$10.80 per unit, which was the closing stock price of our shares on September 28, 2012.

The following is a summary of changes of our common shares for the periods shown (in thousands):

|                                      | Nine Months Ended |           |
|--------------------------------------|-------------------|-----------|
|                                      | September         | September |
|                                      | 30,               | 30, 2011  |
|                                      | 2012              |           |
| Common shares at beginning of period | 30,710            | 30,682    |
| Issuance of common shares            | 7,475             | -         |
| Issuance of restricted shares        | 376               | 25        |
| Forfeiture of restricted shares      | (1 )              | -         |
| Common shares at end of period       | 38,560            | 30,707    |

### ***Dividends and Distributions***

On September 12, 2012, we announced that our Board of Directors declared a third quarter 2012 dividend of \$0.16 per common share and OP Unit. The dividend was paid on October 10, 2012, to stockholders of record on September 26, 2012. At September 30, 2012, we accrued approximately \$6.2 million related to our common dividend in accounts payable and accrued expenses in the accompanying condensed consolidated balance sheet.

On September 12, 2012, the Board of Directors also declared a cash dividend of \$0.50 per share of Series A Preferred Stock for the period July 16, 2012 through October 15, 2012. The preferred share dividend was paid on October 15, 2012, to stockholders of record on September 26, 2012. At September 30, 2012, we accrued approximately \$1.0 million related to our preferred dividend in accounts payable and accrued expenses in the accompanying condensed consolidated balance sheet.

### **10. Incentive Plans**

We have adopted the 2010 Equity Incentive Compensation Plan (the "Incentive Plan") which permits the grant of incentive awards to our executive officers, employees, consultants and non-employee directors. The aggregate number of awards available for issuance under the Incentive Plan is 2.5 million. As of September 30, 2012 and December 31, 2011, approximately 1.2 million shares and 1.9 million shares, respectively, were available for issuance under the Incentive Plan.

### ***Restricted Stock Awards***

Awards to our executive officers and employees vest over a three year period and are subject to restriction based upon employment in good standing with the Company. Awards to our non-employee directors vest over a five year period and are subject to restriction based upon continued service on our Board of Directors.

At September 30, 2012, unearned compensation totaled approximately \$3.7 million and will be recorded over the applicable vesting period of three to five years. We recognized stock compensation of approximately \$0.5 million and \$1.3 million during the three and nine months ended September 30, 2012, respectively, and approximately \$0.1 million and \$0.3 million during the three and nine months ended September 30, 2011, respectively, in the accompanying condensed consolidated financial statements.

***Restricted OP Units***

At September 30, 2012, unearned compensation totaled approximately \$0.7 million, and will be recorded over the applicable vesting period of three years. We recognized compensation cost related to the vesting of restricted OP Units of approximately \$0.2 million and \$0.5 million during the three and nine months ended September 30, 2012, respectively, and approximately \$0.2 million and \$0.5 million during the three and nine months ended September 30, 2011, respectively, in the accompanying condensed consolidated financial statements.

The following is a summary of our plan activity for the period shown (in thousands, except weighted average grant price):

|                                       | Restricted<br>Common<br>Stock | Restricted<br>OP Units | Weighted<br>Average<br>Grant<br>Price |
|---------------------------------------|-------------------------------|------------------------|---------------------------------------|
| Unvested balance at December 31, 2011 | 80                            | 100                    | \$ 12.32                              |
| Granted                               | 376                           | -                      | 10.83                                 |
| Vested                                | (3 )                          | -                      | 10.61                                 |
| Forfeited                             | (1 )                          | -                      | 10.61                                 |
| Unvested balance at Septmber 30, 2012 | 452                           | 100                    | \$ 11.32                              |

## 11. Segments

The operating segments in which management assesses performance and allocates resources are student housing operations and development, construction and management services. Our segments reflect management's resource allocation and performance assessment in making decisions regarding our Company. Our student housing rental and student housing services revenues are aggregated within the student housing operations segment and our third-party services of development, construction and management are aggregated within the development, construction and management services segment.

The following tables set forth our segment information for the periods presented (amounts in thousands):

|  | Three Months Ended |           | Nine Months Ended |           |
|--|--------------------|-----------|-------------------|-----------|
|  | September          | September | September         | September |
|  | 30, 2012           | 30, 2011  | 30, 2012          | 30, 2011  |
| <b>Student Housing Operations</b>                          |                    |           |                   |           |
| Revenues from external customers                           | \$22,383           | \$15,569  | \$59,590          | \$42,716  |
| Operating expenses   | 15,921             | 12,297    | 45,306            | 35,412    |
| Operating income   | 6,462              | 3,272     | 14,284            | 7,304     |
| Nonoperating expenses                                      | (2,466 )           | (1,504 )  | (7,595 )          | (3,043 )  |
| Net income (loss)  | 3,996              | 1,768     | 6,689             | 4,261     |
| Net (income) loss attributable to noncontrolling interests | (38 )              | (18 )     | (64 )             | (43 )     |
| Net income (loss) attributable to stockholders             | \$3,958            | \$1,750   | \$6,625           | \$4,218   |
| Depreciation and amortization                              | \$5,727            | \$4,809   | \$17,319          | \$15,054  |
| Total segment assets at end of period                      | \$636,911          | \$436,280 | \$636,911         | \$436,280 |
| <b>Development, Construction and Management Services</b>   |                    |           |                   |           |
| Revenues from external customers                           | \$12,103           | \$4,827   | \$43,162          | \$26,444  |
| Intersegment revenue                                       | 19,844             | 28,330    | 65,368            | 80,245    |
| Total revenues   | 31,947             | 33,157    | 108,530           | 106,689   |
| Operating expenses   | 32,015             | 31,055    | 105,361           | 99,133    |
| Operating income   | (68 )              | 2,102     | 3,169             | 7,556     |
| Nonoperating expenses                                      | (10 )              | (15 )     | (10 )             | (250 )    |
| Net income (loss)  | (78 )              | 2,087     | 3,159             | 7,306     |
| Net (income) loss attributable to noncontrolling interests | 1                  | (21 )     | (30 )             | (73 )     |
| Net income (loss) attributable to stockholders             | \$(77 )            | \$2,066   | \$3,129           | \$7,233   |
| Depreciation and amortization                              | \$22               | \$21      | \$67              | \$67      |
| Total segment assets at end of period                      | \$36,525           | \$13,954  | \$36,525          | \$13,954  |
| <b>Reconciliations</b>                                     |                    |           |                   |           |
| Total segment revenues                                     | \$54,330           | \$48,726  | \$168,120         | \$149,405 |
| Elimination of intersegment revenues                       | (19,844 )          | (28,330 ) | (65,368 )         | (80,245 ) |
| Total consolidated revenues                                | \$34,486           | \$20,396  | \$102,752         | \$69,160  |

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|  |           |           |           |           |
|--|-----------|-----------|-----------|-----------|
| Segment operating income (loss)                      | \$6,394   | \$5,374   | \$17,453  | \$14,860  |
| Interest expense                                     | (2,623 )  | (1,922 )  | (8,395 )  | (4,657 )  |
| Change in fair value of interest rate derivatives    | (57 )     | (22 )     | (160 )    | 315       |
| Net unallocated expenses and eliminations            | (1,230 )  | (2,785 )  | (6,800 )  | (10,248 ) |
| Equity in earnings (loss) of unconsolidated entities | 86        | (233 )    | 283       | (759 )    |
| Other income (expense)                               | 6,554     | 43        | 6,479     | 87        |
| Income tax expense                                   | (74 )     | (41 )     | (330 )    | (299 )    |
| Net income (loss)                                    | \$9,050   | \$414     | \$8,530   | \$(701 )  |
| <br>   |           |           |           |           |
| Total segment assets at end of period                | \$673,436 | \$450,234 | \$673,436 | \$450,234 |
| Unallocated corporate assets and eliminations        | 5,782     | 16,610    | 5,782     | 16,610    |
| Total assets at end of period                        | \$679,218 | \$466,844 | \$679,218 | \$466,844 |

## 12. Commitments and Contingencies

### *Commitments*

In the normal course of business, we enter into various development, construction and other purchase commitments with parties that provide development, construction and other goods and services. In the event we were to terminate these services prior to the completion of projects, we could potentially be committed to satisfy outstanding or uncompleted purchase orders with such parties. At September 30, 2012, management does not anticipate any material deviations from schedule or budget related to projects currently in progress.

In the ordinary course of business, certain liens related to the construction of student housing real estate property may be attached to our assets by contractors or suppliers. We are responsible as the general contractor for resolving these liens. There can be no assurance that we will not be required to pay amounts greater than currently recorded liabilities to settle these claims.

We guarantee certain mortgage notes related to our unconsolidated joint ventures (See Note 5).

### *Contingencies*

In the normal course of business, we are subject to claims, lawsuits and legal proceedings. While it is not possible to ascertain the ultimate outcome of all such matters, management believes that the aggregate amount of such liabilities, if any, in excess of amounts provided or covered by insurance, will not have a material adverse effect on our financial position or results of operations. Other than routine litigation arising in the ordinary course of business and after taking into account insurance coverage, we are not involved in any material litigation nor, to management's knowledge, is any material litigation currently threatened against us or our properties or subsidiaries.

We are not aware of any environmental liability with respect to the properties that could have a material adverse effect on our business, assets or results of operations. However, there can be no assurance that such a material environmental liability does not exist. The existence of any such material environmental liability could have an adverse effect on our results of operations and cash flows.

### **13. Related Party Transactions**

We lease aircraft from entities in which two of our executive officers have an ownership interest. We incurred costs from these entities of approximately \$50,000 and \$150,000 for the three and nine months ended September 30, 2012, respectively. We incurred costs from these entities of approximately \$50,000 and \$130,000 for the three and nine months ended September 30, 2011, respectively.

We have engaged an entity affiliated with one of our board members to perform certain information technology services. The total contract value is approximately \$0.3 million, which has been fully paid as of September 30, 2012.

### **14. Subsequent Events**

Subsequent to quarter end, we reached an agreement with HSRE to develop/construct a joint venture property in Indiana, Pennsylvania. The Grove at Indiana is anticipated to be owned jointly by HSRE and us through HSRE-Campus Crest VI, LLC and will hold approximately 224 units and 600 beds. We expect this to close in the fourth quarter of 2012.

We are currently negotiating an amendment to our Credit Facility. We have received approximately \$250.0 million in commitments and expect to close the amended Credit Facility in early 2013. The amended Credit Facility is anticipated to have improved pricing, a four-year term plus an additional one year extension option (upon satisfaction of conditions), a \$50.0 million term loan component and an accordion feature that can increase the size of the facility to approximately \$600.0 million (upon satisfaction of conditions). We plan to contribute The Grove at Huntsville, The Grove at Moscow and The Grove at Valdosta to the unencumbered pool of the Credit Facility. The proposed amendment to the Credit Facility is subject to definitive documentation; accordingly, we can make no assurance that the Credit Facility will be amended as expected or at all.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

As used herein, references to "we," "us," "our," the "Company" and "Campus Crest" refer to Campus Crest Communities, Inc. and our consolidated subsidiaries, including Campus Crest Communities Operating Partnership, LP (the "Operating Partnership"), except where the context otherwise requires.

### *Forward-looking Statements*

This report contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. We intend such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995 and include this statement for purpose of complying with these safe harbor provisions. Forward-looking statements are generally identifiable by use of forward-looking terminology such as "may," "will," "should," "potential," "intend," "expect," "seek," "anticipate," "estimate," "approximately," "believe," "could," "project," "predict," "continue," "plan" or other similar words or expressions. Forward-looking statements are based on certain assumptions, discuss future expectations, describe future plans and strategies, contain financial and operating projections or state other forward-looking information. Our ability to predict results or the actual effect of future events, actions, plans or strategies is inherently uncertain. Although we believe that the expectations reflected in such forward-looking statements are based on reasonable assumptions, our actual results and performance could differ materially from those set forth in, or implied by, the forward-looking statements. Factors that could materially and adversely affect us include but are not limited to:

the factors discussed in our Annual Report on Form 10-K for the year ended December 31, 2011, including those set forth under the headings "Business," "Risk Factors" and "Management's Discussion of Financial Condition and Results of Operations";

the performance of the student housing industry in general;

decreased occupancy or rental rates at our properties resulting from competition or other factors;

the operating performance of our properties;

the availability of attractive development and/or acquisition opportunities in properties that satisfy our investment criteria and the success of our acquisition, development and construction activities, including

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satisfaction of conditions to closing for pending acquisitions and, in some cases, the negotiation and execution of definitive documents and satisfaction of the conditions therein;

· changes in the admissions or housing policies of the colleges and universities from which we draw student-tenants;

· changes in our business and growth strategies and in our ability to consummate additional joint venture transactions;

· our capitalization and leverage level;

· our capital expenditures;

· the degree and nature of our competition, in terms of developing properties, consummating acquisitions and in obtaining student-tenants to fill our properties;

· volatility in the real estate industry, interest rates and spreads, the debt or equity markets, the economy generally or the local markets in which our properties are located, whether the result of market events or otherwise;

· events or circumstances which undermine confidence in the financial markets or otherwise have a broad impact on financial markets, such as the sudden instability or collapse of large financial institutions or other significant corporations, terrorist attacks, natural or man-made disasters or threatened or actual armed conflicts;

· the availability and terms of short-term and long-term financing, including financing for development and construction activities;

· the credit quality of our student-tenants and parental guarantors;

· changes in personnel, including the departure of key members of our senior management, and lack of availability of, or our inability to attract, qualified personnel;

· unanticipated increases in financing and other costs, including a rise in interest rates;

· estimates relating to our ability to make distributions to our stockholders in the future and our expectations as to the form of any such distributions;

· development and construction costs and timing;

· environmental costs, uncertainties and risks, especially those related to natural disasters;

changes in governmental regulations, accounting treatment, tax rates and similar matters;

legislative and regulatory changes (including changes to laws governing the taxation of a real estate investments trust ("REIT")); and

limitations imposed on our business and our ability to satisfy complex rules in order for us to qualify as a REIT for U.S. federal income tax purposes and the ability of certain of our subsidiaries to qualify as taxable REIT subsidiaries for U.S. federal income tax purposes, and our ability and the ability of our subsidiaries to operate effectively within the limitations imposed by these rules.

When considering forward-looking statements, you should keep in mind the risk factors and other cautionary statements in this report. Readers are cautioned not to place undue reliance on any of these forward-looking statements, which reflect our views as of the date of this report. The matters summarized in this report, including "Management's Discussion and Analysis of Financial Condition and Results of Operations," could cause our actual results and performance to differ materially from those set forth in, or implied by, our forward-looking statements. Accordingly, we cannot guarantee future results or performance. Furthermore, except as required by law, we are under no duty to, and we do not intend to, update any of our forward-looking statements after the date of this report, whether as a result of new information, future events or otherwise.

**Overview**

We are a self-managed, self-administered and vertically-integrated REIT focused on developing, building, owning and managing high-quality, resident life focused student housing properties in the United States. We operate our business through the Operating Partnership and our subsidiaries. We derive substantially all of our revenue from student housing rental, student housing services, construction and development services and management services. As of September 30, 2012, we owned 98.9% of the outstanding common units of limited partnership interest in the Operating Partnership (“OP Units”), and all of the outstanding preferred units of limited partnership interest in the Operating Partnership.

We believe that we are one of the largest vertically-integrated developers, builders, owners and managers of high-quality student housing properties in the United States based on beds owned and under management. As of September 30, 2012, we owned interests in 39 operating student housing properties. As of September 30, 2012, our portfolio consists of:

|  | Number of<br>Properties | Units   | Beds   |
|--|-------------------------|---------|--------|
| Operating properties:                          |                         |         |        |
| Wholly-owned                                   | 32                      | 6,248   | 16,936 |
| Unconsolidated joint ventures                  | 7                       | 1,422   | 3,948  |
| Total operating portfolio                      | 39                      | 7,670   | 20,884 |
| Properties under development:                  |                         |         |        |
| Wholly-owned - 2013 deliveries                 | 3                       | (1) 650 | 1,780  |
| Unconsolidated joint venture - 2013 deliveries | 2                       | (2) 440 | 1,184  |
| Total portfolio                                | 44                      | 8,760   | 23,848 |

Includes three student housing properties with completion targeted for the 2013-2014 academic year, The Grove at <sup>(1)</sup>Fort Collins, located in Colorado, The Grove at Muncie, located in Indiana and The Grove at Pullman, located in Washington.

Includes two student housing properties with completion targeted for the 2013-2014 academic year, The Grove at <sup>(2)</sup>Norman, located in Oklahoma and The Grove at State College, located in Pennsylvania. Subsequent to quarter end, we reached an agreement with HSRE to develop/construct a joint venture property in Indiana, Pennsylvania. See Note 13 in the accompanying condensed consolidated financial statements for further discussion.

All of our properties are recently built and have close proximities to campus, with an average age of approximately 3.1 years and an Median distance to campus of 0.5 miles; both calculated as of September 30, 2012. For the nine months ended September 30, 2012, the average occupancy for our 39 operating properties was approximately 90.5%

and the average monthly total revenue (including rental and service revenue) per occupied bed ("RevPOB") was approximately \$496.

All of our communities contain modern apartment units with many resort-style amenities and are primarily located in medium-sized college and university markets, which we define as markets located outside of major U.S. cities that have nearby schools generally with overall enrollment of approximately 8,000 to 20,000 students. We believe such markets are underserved and are generally experiencing enrollment growth. We recently completed the construction of three wholly-owned properties, a 160 bed expansion at an existing wholly-owned property, and three joint venture properties; all commenced operations in August/September 2012 for the 2012-2013 academic year. We have additionally begun construction at three wholly-owned properties and two joint venture properties for which we expect to commence operations in August/September 2013 for the 2013-2014 academic year. Subsequent to quarter end, we reached an agreement with HSRE to develop/construct a property in Indiana, Pennsylvania. See Note 13 in the accompanying condensed consolidated financial statements for further discussion. At September 30, 2012, our ownership interest in these joint ventures was 20.0%.

### ***Our Business Segments***

Management evaluates operating performance through the analysis of results of operations of two distinct business segments: (i) student housing operations, and (ii) development, construction and management services. Management evaluates each segment's performance by net operating income, which we define as operating income before depreciation and amortization. The accounting policies of our reportable business segments are described in more detail in the summary of significant accounting policies note (Note 2) to our unaudited condensed consolidated financial statements. Intercompany fees are reflected at the contractually stipulated amounts, as adjusted to reflect our proportionate ownership of unconsolidated entities.

### ***Student Housing Operations***

Our student housing operations are comprised of rental and other service revenues, such as application fees, pet fees and late payment fees. We opened our first student housing property in Asheville, North Carolina in 2005 for the 2005-2006 academic year. We subsequently opened three additional properties in 2006 for the 2006-2007 academic year, six additional properties in 2007 for the 2007-2008 academic year and nine additional properties in 2008 for the 2008-2009 academic year. In 2009, we opened one additional property that was consolidated by our predecessor and four additional properties that are owned by a real estate venture in which we have a noncontrolling interest. In August 2010, we opened three additional properties for the 2010-2011 academic year that are owned by a real estate venture in which we have a noncontrolling interest. Concurrent with the our initial public offering and related formation transactions in October 2010, we purchased the remaining interest in one of the properties owned by this real estate venture. In August 2011, we opened four wholly-owned properties for the 2011-2012 academic year and two properties for the 2011-2012 academic year that are owned by a real estate venture in which we have a noncontrolling interest. In December 2011, we purchased the remaining interests in two properties owned by two of the aforementioned joint ventures. In July 2012, we purchased the remaining interests in two additional properties owned by one of the aforementioned joint ventures. In August/September 2012, we opened three wholly-owned

properties for the 2012-2013 academic year and three properties for the 2012-2013 academic year that are owned by a real estate venture in which we have a noncontrolling interest.

Due to the continuous opening of new properties in consecutive years and annual lease terms that do not coincide with our reported fiscal (calendar) years, the comparison of our consolidated financial results from period to period may not provide a meaningful measure of our operating performance. For this reason, we divide the results of operations in our student housing operations segment between new property operations and "same-store" operations, which we believe provides a more meaningful indicator of comparative historical performance.

### ***Development, Construction and Management Services***

*Development and Construction Services.* In addition to our wholly-owned properties, all of which were developed and built by us, we also provide development and construction services to unconsolidated joint ventures in which we have an ownership interest. We act as a general contractor on all of our construction projects. When building properties for our own account (i.e., for entities that are consolidated in our financial statements), construction revenues and expenses are eliminated for accounting purposes and construction costs are ultimately reflected as capital additions. Thus, building properties for our own account does not typically generate any revenues or expenses in our development, construction and management services segment on a consolidated basis.

Alternatively, when performing these services for unconsolidated joint ventures, we recognize construction revenues based on the costs that have been contractually agreed to with the joint venture for the construction of the property and expenses based on the actual costs incurred. Construction revenues are recognized using the percentage of completion method, as determined by construction costs incurred relative to total estimated construction costs, as adjusted to eliminate our proportionate ownership of each entity. Actual construction costs are expensed as incurred and are likewise adjusted to eliminate our proportionate ownership of each entity. Operating income generated by our development and construction activities generally reflects the development fee and construction fee income that is realized by providing these services to unconsolidated real estate ventures (i.e., the "spread" between the contractual cost of construction and the actual cost of construction).

*Management Services.* In addition to our wholly-owned properties, all of which are managed by us, we also provide management services to unconsolidated real estate ventures in which we have an ownership interest. We recognize management fees from these entities as earned in accordance with the property management agreement with these entities, as adjusted to eliminate our proportionate ownership of each entity.

### ***Our Relationship With HSRE***

We are party to four joint venture arrangements with Harrison Street Real Estate ("HSRE"), a real estate private equity firm founded in 2005 that has significant real estate asset holdings, including student housing properties, senior housing/assisted living units, self-storage units, boat storage facilities and medical office space. As of September 30,

2012, we have developed 14 properties in partnership with HSRE with a total aggregate cost of approximately \$257.0 million. In general, we are responsible for the day-to-day management of the business and affairs of the joint ventures, provided that major decisions (including budgeting) be approved by both ourselves and HSRE. In addition to distributions to which we are entitled as an investor in the joint ventures, we receive, or have in the past received, fees for providing services to the properties held by the joint ventures pursuant to development and construction agreements and property management agreements. Under certain circumstances, we will be responsible for funding the amount by which actual development costs for a project pursued by the joint ventures exceed the budgeted development costs of such project (without any increase in our interest in the project), which could materially and adversely affect the fee income realized from any such project.

*HSRE I.* HSRE-Campus Crest I, LLC ("HSRE I") indirectly owned 100% interests in the following three properties at September 30, 2012: The Grove at Conway, The Grove at Lawrence, and The Grove at San Angelo. At September 30, 2012, we owned a 49.9% interest in HSRE I and HSRE owned the remaining 50.1%.

*HSRE IV.* HSRE-Campus Crest IV, LLC ("HSRE IV") indirectly owned 100% interest in one property at September 30, 2012, The Grove at Denton. At September 30, 2012, we owned a 20.0% interest in HSRE IV and affiliates of HSRE owned the remaining 80.0%.

*HSRE V.* HSRE-Campus Crest V, LLC ("HSRE V") indirectly owned 100% interests in the following three properties at September 30, 2012: The Grove at Fayetteville, The Grove at Laramie, and The Grove at Stillwater. At September 30, 2012, we owned a 10.0% interest in HSRE V and affiliates of HSRE owned the remaining 90.0%.

*HSRE VI.* HSRE-Campus Crest VI, LLC (“HSRE VI”) is currently building two new student housing properties with completion targeted for the 2013-2014 academic year. The properties, located in Norman, Oklahoma and State College, Pennsylvania, contain an aggregate of approximately 1,184 beds and have an estimated cost of approximately \$53.4 million. At September 30, 2012, we owned a 20.0% interest in HSRE VI and affiliates of HSRE owned the remaining 80.0%. Subsequent to quarter end, we reached an agreement with HSRE to develop/construct a joint venture property in Indiana, Pennsylvania. See Note 13 in the accompanying condensed consolidated financial statements for further discussion.

Each of the aforementioned joint ventures will dissolve upon the disposition of substantially all of its assets or the occurrence of certain events specified in the respective agreement between us and HSRE. In January 2011, we granted HSRE the right of first opportunity to participate in all future student housing development opportunities identified by us that are funded in part with equity investments by parties unaffiliated with us, until such time as affiliates of HSRE have invested an aggregate \$50 million with us, or caused our joint ventures to decline three development opportunities in any calendar year. The terms of our joint ventures with HSRE do not prohibit us from developing wholly-owned student housing properties for our own account.

## **Factors That Affect Our Operating Results**

### *Unique Leasing Characteristics*

Student housing properties are typically leased by the bed on an individual lease liability basis, unlike multi-family housing where leasing is by the unit. Individual lease liability limits each student-tenant's liability to his or her own rent without liability for a roommate's rent. A parent or guardian is required to execute each lease as a guarantor unless the student-tenant provides adequate proof of income. The number of lease contracts that we administer is therefore equivalent to the number of beds occupied rather than the number of units.

Due to our predominantly private bedroom accommodations, the high level of student-oriented amenities offered at our properties and the individual lease liability for our student-tenants and their parents, we believe that we typically command higher per-unit and per-square foot rental rates than many multi-family properties located in the markets in which we operate. We are also typically able to charge higher rental rates than on-campus student housing, which generally offers fewer amenities.

Unlike traditional multi-family housing, most of our leases commence and terminate on the same date. In the case of our typical 11.5-month leases (which provide for 12 equal monthly payments), this date coincides with the commencement of the fall academic term and typically terminate at the completion of the last subsequent summer school session. As such, we must re-lease each property in its entirety each year, resulting in significant turnover in

our tenant population from year to year. As a result, we are highly dependent upon the effectiveness of our marketing and leasing efforts during the annual leasing season that typically begins in January and ends in August of each year. Our properties' occupancy rates are therefore typically relatively stable during the August to July academic year, but are susceptible to fluctuation at the commencement of each new academic year, which may be greater than the fluctuation in occupancy rates experienced by traditional multi-family properties. For most of our properties, the primary leasing season concludes by the end of August (our properties located in Ellensburg, Washington; Cheney, Washington; and Orono, Maine are exceptions, where the primary leasing season typically extends into September, as the academic year for the primary university served by each of these properties typically starts in late September).

### ***Development, Construction and Management Services***

The amount and timing of revenues from development, construction and management services will typically be contingent upon the number and size of development projects that we are able to successfully structure and finance in our current and future unconsolidated joint ventures. In particular, HSRE VI, in which we have a 20% interest, is anticipated to build additional student housing properties with completion targeted for the 2013-2014 academic year. We expect to receive fees for providing development and construction services to HSRE VI. Additionally, we expect to receive management fees for managing properties owned by this venture once they are placed in service. No assurance can be given that HSRE VI will be successful in developing student housing properties as currently contemplated.

### ***Capital Raising Activities***

In February 2012, we closed an underwritten public offering of approximately 2.3 million shares of our 8.0% Series A Cumulative Redeemable Preferred Stock ("Series A Preferred Stock"), including approximately 0.3 million shares issued and sold pursuant to the exercise of the underwriters' overallotment option in full. The shares of Series A Preferred Stock were issued at a public offering price of \$25.00 per share, for net proceeds of approximately \$54.9 million after deducting the underwriting discount and other offering costs. We used the net proceeds to repay approximately \$48.9 million of indebtedness outstanding under two construction loans which had been used as partial funding for the four properties that were delivered for the 2011-2012 academic year. We used the remaining proceeds for general corporate purposes, including funding properties currently under development.

In July 2012, we closed an underwritten public offering of approximately 7.5 million shares of common stock, including approximately 1.0 million shares issued and sold pursuant to the full exercise of the underwriters' option to purchase additional shares, resulting in net proceeds of approximately \$72.2 million. The net proceeds were used to: (1) acquire the remaining ownership interests in The Grove at Moscow, Idaho and The Grove at Valdosta, Georgia that we did not already own, and to repay the mortgage debt secured by these properties; and (2) to reduce borrowings outstanding under the Credit Facility (defined below). Remaining net proceeds were used for general corporate purposes.



**Results of Operations***Comparison of the Three and Nine months ended September 30, 2012 and 2011*

The following table presents our results of operations for the three months ended September 30, 2012 and 2011, including the amount and percentage change in these results between the periods:

|  | Three Months Ended |           | Change   | Change   |   |
|--|--------------------|-----------|----------|----------|---|
|  | September          | September | (\$)     | (%)      |   |
|  | 30,                | 30, 2011  |          |          |   |
|  | 2012               |           |          |          |   |
| Revenues:  |                    |           |          |          |   |
| Student housing rental                                     | \$21,449           | \$ 14,883 | \$6,566  | 44.1     | % |
| Student housing services                                   | 934                | 686       | 248      | 36.2     | % |
| Development, construction and management services          | 12,103             | 4,827     | 7,276    | 150.7    | % |
| Total revenues   | 34,486             | 20,396    | 14,090   | 69.1     | % |
| Operating expenses:  |                    |           |          |          |   |
| Student housing operations                                 | 10,123             | 7,234     | 2,889    | 39.9     | % |
| Development, construction and management services          | 11,374             | 4,393     | 6,981    | 158.9    | % |
| General and administrative                                 | 1,972              | 1,253     | 719      | 57.4     | % |
| Ground leases  | 54                 | 52        | 2        | 3.8      | % |
| Depreciation and amortization                              | 5,799              | 4,873     | 926      | 19.0     | % |
| Total operating expenses                                   | 29,322             | 17,805    | 11,517   | 64.7     | % |
| Equity in earnings (loss) of unconsolidated entities       | 86                 | (233 )    | 319      | NM       |   |
| Operating income (loss)                                    | 5,250              | 2,358     | 2,892    | 122.6    | % |
| Nonoperating income (expense):                             |                    |           |          |          |   |
| Interest expense   | (2,623 )           | (1,922 )  | (701 )   | 36.5     | % |
| Change in fair value of interest rate derivatives          | (57 )              | (22 )     | (35 )    | 159.1    | % |
| Other income (expense)                                     | 6,554              | 42        | 6,512    | 15,504.8 | % |
| Total nonoperating income (expense)                        | 3,874              | (1,902 )  | 5,776    | NM       |   |
| Net income (loss) before income tax expense                | 9,124              | 456       | 8,668    | 1,900.9  | % |
| Income tax expense   | (74 )              | (42 )     | (32 )    | 76.2     | % |
| Net income (loss)  | 9,050              | 414       | 8,636    | 2,086.0  | % |
| Net (income) loss attributable to noncontrolling interests | (61 )              | (6 )      | (55 )    | 916.7    | % |
| Dividends on preferred stock                               | (1,150 )           | -         | (1,150 ) | N/A      |   |
| Net income (loss) attributable to common stockholders      | \$7,839            | \$ 408    | \$7,431  | 1,821.3  | % |

The following table presents our results of operations for the nine months ended September 30, 2012 and 2011, including the amount and percentage change in these results between the periods:

|  | Nine Months Ended     |                       | Change   | Change  |    |
|--|-----------------------|-----------------------|----------|---------|----|
|  | September<br>30, 2012 | September<br>30, 2011 | (\$)     | (%)     |    |
| <b>Revenues:</b>   |                       |                       |          |         |    |
| Student housing rental                                     | \$57,160              | \$ 41,054             | \$16,106 | 39.2    | %  |
| Student housing services                                   | 2,430                 | 1,662                 | 768      | 46.2    | %  |
| Development, construction and management services          | 43,162                | 26,444                | 16,718   | 63.2    | %  |
| Total revenues   | 102,752               | 69,160                | 33,592   | 48.6    | %  |
| <b>Operating expenses:</b>                                 |                       |                       |          |         |    |
| Student housing operations                                 | 27,631                | 20,001                | 7,630    | 38.1    | %  |
| Development, construction and management services          | 40,260                | 24,229                | 16,031   | 66.2    | %  |
| General and administrative                                 | 6,517                 | 4,923                 | 1,594    | 32.4    | %  |
| Ground leases  | 163                   | 156                   | 7        | 4.5     | %  |
| Depreciation and amortization                              | 17,528                | 15,239                | 2,289    | 15.0    | %  |
| Total operating expenses                                   | 92,099                | 64,548                | 27,551   | 42.7    | %  |
| Equity in earnings (loss) of unconsolidated entities       | 283                   | (759 )                | 1,042    | NM      |    |
| Operating income (loss)                                    | 10,936                | 3,853                 | 7,083    | 183.8   | %  |
| <b>Nonoperating income (expense):</b>                      |                       |                       |          |         |    |
| Interest expense   | (8,395 )              | (4,657 )              | (3,738 ) | 80.3    | %  |
| Change in fair value of interest rate derivatives          | (160 )                | 315                   | (475 )   | NM      |    |
| Other income (expense)                                     | 6,479                 | 87                    | 6,392    | 7,347.1 | %  |
| Total nonoperating income (expense)                        | (2,076 )              | (4,255 )              | 2,179    | (51.2   | %) |
| Net income (loss) before income tax expense                | 8,860                 | (402 )                | 9,262    | NM      |    |
| Income tax expense   | (330 )                | (299 )                | (31 )    | 10.4    | %  |
| Net income (loss)  | 8,530                 | (701 )                | 9,231    | NM      |    |
| Net (income) loss attributable to noncontrolling interests | (38 )                 | (1 )                  | (37 )    | 3,700.0 | %  |
| Dividends on preferred stock                               | (2,964 )              | -                     | (2,964 ) | N/A     |    |
| Net income (loss) attributable to common stockholders      | \$5,528               | \$ (702 )             | \$6,230  | NM      |    |

### ***Student Housing Operations***

The following table presents our consolidated operating properties as of September 30, 2012 and 2011, including the amount and percentage change between the periods:

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|                                   | September<br>30, 2012 | September<br>30, 2011 | Change<br>(\$) | Change<br>(%) |   |
|-----------------------------------|-----------------------|-----------------------|----------------|---------------|---|
| Consolidated operating properties | 32                    | 25                    | 7              | 28.0          | % |
| Units                             | 6,248                 | 4,764                 | 1,484          | 31.2          | % |
| Beds                              | 16,936                | 12,844                | 4,092          | 31.9          | % |

Revenue (which includes student housing rental and student housing service revenue) in the student housing operations segment increased approximately \$6.8 million for the three months ended September 30, 2012, as compared to the same period in 2011, primarily due to an approximate \$6.1 million increase resulting from the inclusion of both developed and acquired properties over the trailing twelve months (see “New Property Operations”) and an approximate \$0.7 million increase resulting from higher RevPOB and a 2.1% increase in occupancy at the properties in our same-store classification (see “Same-Store Property Operations”). Similarly, operating expenses increased approximately \$2.9 million for the three months ended September 30, 2012, as compared to the same period in 2011, primarily due to an approximate \$2.7 million increase resulting from the inclusion of both developed and acquired properties over the trailing twelve months (see “New Property Operations”) and an approximate \$0.2 million increase resulting properties in our same-store classification (see “Same-Store Property Operations”).

Revenue (which includes student housing rental and student housing service revenue) in the student housing operations segment increased approximately \$16.9 million for the nine months ended September 30, 2012, as compared to the same period in 2011, primarily due to an approximate \$14.9 million increase resulting from the inclusion of both developed and acquired properties over the trailing twelve months (see “New Property Operations”) and an approximate \$2.0 million increase resulting from higher RevPOB and a 2.2% increase in occupancy at the properties in our same-store classification (see “Same-Store Property Operations”). Similarly, operating expenses increased approximately \$7.6 million for the nine months ended September 30, 2012, as compared to the same period in 2011, primarily due to an approximate \$6.8 million increase resulting from the inclusion of both developed and acquired properties over the trailing twelve months (see “New Property Operations”) and an approximate \$0.8 million increase resulting properties in our same-store classification (see “Same-Store Property Operations”).

*New Property Operations.* In August 2012, we opened three developed properties: The Grove at Auburn, The Grove at Flagstaff, and The Grove at Orono, as well as a 160 bed expansion at an existing wholly-owned property. In July 2012, we acquired the remaining interests in The Grove at Moscow and The Grove at Valdosta. Similarly in December 2011, we acquired the remaining interests in The Grove at Huntsville and The Grove at Statesboro. The interests in these four properties were acquired from HSRE. Prior to the acquisition date of these interests, we accounted for our ownership interest in these properties under the equity method; subsequent to our acquisition date of these interests, we consolidated the results of operations of these properties. In August 2011, we opened four developed properties: The Grove at Ames, The Grove at Clarksville, The Grove at Columbia and The Grove at Fort Wayne. These developments and acquisitions contributed approximately \$6.1 million and \$14.9 million of revenues and approximately \$2.7 million and \$6.8 million of operating expenses for the three and nine months, respectively, ended September 30, 2012.

*Same-Store Property Operations.* We had 21 “same-store” properties that were operating for the three months ended September 30, 2012 and 2011. Average occupancy at these properties increased to approximately 92.0% for the three months ended September 30, 2012 as compared to approximately 89.9% for the three months ended September 30, 2011 and RevPOB increased to approximately \$500 for the three months ended September 30, 2012 as compared to approximately \$488 for the three months ended September 30, 2011. Same store properties contributed approximately \$14.5 million of revenues and approximately \$7.0 million of operating expenses for the three months ended September 30, 2012 as compared to approximately \$13.8 million of revenues and approximately \$6.8 million of operating expenses for the three months ended September 30, 2011. The increase in revenues is the combined result of increased occupancy and RevPOB period over period. The increase in operating expenses is due to increased property leasing efforts as well as taxes and insurance costs, offset by lower utility costs. Our growth in revenues outpaced our growth in operating expenses, resulting in a slight increase in property operating margin period over period.

We had 21 “same-store” properties that were operating for the nine months ended September 30, 2012 and 2011. Average occupancy at these properties increased to approximately 91.5% for the nine months ended September 30, 2012 as compared to approximately 89.3% for the nine months ended September 30, 2011 and RevPOB increased to approximately \$495 for the nine months ended September 30, 2012 as compared to approximately \$484 for the nine months ended September 30, 2011. Same store properties contributed approximately \$42.9 million of revenues and approximately \$20.3 million of operating expenses for the nine months ended September 30, 2012 as compared to approximately \$40.9 million of revenues and approximately \$19.5 million of operating expenses for the nine months ended September 30, 2011. The increase in revenues is the combined result of increased occupancy and RevPOB period over period. The increase in operating expenses is due to increased property leasing efforts as well as taxes and insurance costs, offset by lower utility costs. Our growth in revenues outpaced our growth in operating expenses, resulting in a slight increase in property operating margin period over period.

### ***Development, Construction and Management Services***

Our development, construction and management services segment recognizes revenue and operating expenses for development, construction and management services provided to unconsolidated joint ventures in which we have an

ownership interest. We eliminate revenue and related expenses on such transactions with our unconsolidated entities to the extent of our ownership interest.

Revenue in the development, construction and management services segment increased approximately \$7.3 million and operating expenses increased approximately \$7.0 million for the three months ended September 30, 2012 as compared to the same period in 2011. The increase in development, construction and management services revenues and operating expenses was due primarily to an increase from two joint venture development/construction properties in which we owned a 20% interest during the three months ended September 30, 2011 to three joint venture development/construction properties in which we owned a 10% interest and two joint ventures development/construction properties in which we owned a 20% interest during the three months ended September 30, 2012 (including the renovation and expansion of The Grove at Stillwater).

Revenue in the development, construction and management services segment increased approximately \$16.7 million and operating expenses increased approximately \$16.0 million for the nine months ended September 30, 2012 as compared to the same period in 2011. The increase in development, construction and management services revenues and operating expenses was due to an increase from two joint venture development/construction properties in which we owned a 20% interest during the nine months ended September 30, 2011 to three joint venture development/construction properties in which we owned a 10% interest and a fourth joint venture development/construction property in which we owned a 20% interest during the nine months ended September 30, 2012 (including the renovation and expansion of The Grove at Stillwater). We also broke-ground on a fifth joint venture property during the three months ended September 30, 2012 in which we hold a 20% interest, targeted for delivery in August 2013.

Our ability to generate revenue and expenses related to future development and construction projects will depend upon our ability to enter into and provide services to existing or new joint ventures, as well as our proportionate ownership of any such joint ventures.

### *General and Administrative*

General and administrative expenses increased approximately \$0.7 million and \$1.6 million for the three and nine months, respectively, ended September 30, 2012 as compared to the same periods in 2011. This increase was due to the growth of our business primarily driven by increased headcount and related travel costs.

### ***Depreciation and Amortization***

Depreciation and amortization expense increased approximately \$0.9 million and \$2.3 million for the three and nine months, respectively, ended September 30, 2012 as compared to the same periods in 2011. This increase was primarily due to the opening of the aforementioned new developments and acquisitions.

### ***Equity in Earnings (Loss) of Unconsolidated Entities***

Equity in earnings (loss) of unconsolidated entities represents our share of the net earnings (loss) from unconsolidated entities in which we have a noncontrolling interest and income earned from Class B Interests held in certain joint venture operating properties (collectively referred to as "Class B Interests"). The Class B Interests entitle us to a 9.0% return on our investment but otherwise did not change our effective ownership interest in these properties. We began 2011 with a \$4.8 million Class B Interest in two joint venture properties and increased such position to \$6.8 million in four joint venture properties as of September 30, 2011. We began 2012 with a \$13.2 million Class B Interest in four joint venture properties. In July 2012, we acquired the remaining ownership interests in two joint venture properties and as a result, held a \$9.2 million Class B Interest in two joint venture properties as of September 30, 2012.

We held a 49.9% interest in six unconsolidated operating properties during the three months ended September 30, 2011 as well as a 20.0% interest in two unconsolidated properties placed into operation in August 2011. During the three months ended September 30, 2012, we held a 49.9% interest in three unconsolidated operating properties as well as a 10.0% interest in two unconsolidated properties, all placed in operation in August 2012. Equity in earnings (loss) on unconsolidated entities changed from a loss of approximately \$0.2 million for the three months ended September 30, 2011 to earnings of approximately \$0.1 million for the three months ended September 30, 2012. This increase was driven by improved property operating margins on the same store properties, contribution from the new deliveries and an increase in income generated from our Class B Interests.

We held a 49.9% interest in six unconsolidated operating properties during the nine months ended September 30, 2012 as well as a 20.0% interest in two unconsolidated properties placed into operation in August 2011. During the nine months ended September 30, 2012, we held a 49.9% interest in three unconsolidated operating properties as well as a 10.0% interest in two unconsolidated properties, all placed in operation in August 2012. Equity in earnings (loss) on unconsolidated entities changed from a loss of approximately \$0.8 million for the nine months ended September 30, 2011 to earnings of approximately \$0.3 million for the nine months ended September 30, 2012. This increase was driven by improved property operating margins on the same store properties, contribution from the new deliveries and an increase in income generated from our Class B Interests.

### ***Nonoperating Income (Expenses)***

Interest expense increased approximately \$0.7 million for the three months ended September 30, 2012 as compared to the same period in 2011. This increase is due to increased debt balances resulting from the aforementioned opening of four new properties, the acquisition of two properties during the second half of 2011, placing debt on previously unencumbered properties and the opening of two properties in August 2012. These increases were partially offset by our outstanding indebtedness having a lower effective borrowing rate for the three months ended September 30, 2012 as compared to 2011.

Interest expense increased approximately \$3.7 million for the nine months ended September 30, 2012 as compared to the same period in 2011. This increase was due to a non-cash charge of approximately \$1.0 million related to the write-off of unamortized deferred financing fees associated with construction debt we repaid in the first quarter of 2012 as well as increased debt balances resulting from the aforementioned opening of four new properties, the acquisition of two properties during the second half of 2011, placing debt on previously unencumbered properties and the opening of two properties in August 2012. These increases were partially offset by our outstanding indebtedness having a lower effective borrowing rate for the nine months ended September 30, 2012 as compared to 2011.

Other income (expense) increased approximately \$6.5 million and \$6.4 million for the three and nine months ended September 30, 2012, respectively, as compared to the same periods in 2011. This is due to our purchase of the remaining ownership interests in The Grove at Moscow, Idaho, and The Grove at Valdosta, Georgia, for which we recognized a net gain of approximately \$6.6 million related to the remeasurement to fair value of our previously held equity interests in the properties at the acquisition date.

#### ***Income Tax Benefit (Expense)***

Income tax expense remained relatively flat for the three and nine months ended September 30, 2012, respectively, as compared to the same periods in 2011. The increase in taxable income to Campus Crest TRS Holdings, Inc., our taxable REIT subsidiary ("TRS"), is driven by the aforementioned increase in development, construction and management services, offset by the aforementioned increases in general and administrative costs allocable to our TRS.

#### ***Dividends on Preferred Stock***

We issued preferred stock in the first quarter of 2012. We had no such preferred equity outstanding in the prior year.

#### ***Cash Flows***

*Operating Activities*

Net cash provided by (used in) operating activities was approximately \$22.9 million for the nine months ended September 30, 2012 as compared to approximately \$21.8 million for the nine months ended September 30, 2011, an increase of approximately \$1.1 million. Net income (loss) adjusted for non-cash items increased \$7.3 million for the nine months ended September 30, 2012 compared to the nine months ended September 30, 2011. This was partially offset by working capital accounts using approximately \$6.2 million more cash during the nine months ended September 30, 2012 compared to the same period in 2011.

### *Investing Activities*

Net cash provided by (used in) investing activities totaled approximately \$(107.2) million for the nine months ended September 30, 2012 as compared to approximately \$(86.1) million for the nine months ended September 30, 2011, an increased use of approximately \$21.1 million. The increase is predominantly due to our acquisition of the remaining interests at The Grove at Moscow and The Grove at Valdosta in the current year, where no such transaction occurred during this same period in the prior year, as well as a decrease in cash generated by our investment in unconsolidated entities. During the nine months ended September 30, 2011, we received cash from HSRE related to the contribution of ownership interests in two properties into joint ventures, whereas during the same period in 2012, we only contributed one property into a joint venture, resulting in less cash proceeds for comparable periods.

### *Financing Activities*

Net cash provided by (used in) financing activities totaled approximately \$89.5 million for the nine months ended September 30, 2012 as compared to approximately \$71.5 million for the nine months ended September 30, 2011, an increase of approximately \$18.0 million. This primarily relates to an increase in net debt and equity proceeds for the comparable periods year over year, including the completion of the Series A Preferred Stock offering in February 2012 and a common equity raise in July 2012, which have been used to fund increased development and construction activity for wholly-owned student housing properties, to pay down mortgage notes, and to fund investments in unconsolidated joint ventures. These amounts were partially offset by an increase in dividends paid for the comparable periods year over year and significantly higher mortgage and construction note repayments. The nine months ended September 30, 2012 included dividends paid on the aforementioned Series A Preferred Stock which was not outstanding during the comparable period in 2011. Additionally, common stock dividends paid during the nine months ended September 30, 2012 included three full quarter's worth of dividends, whereas common stock dividends that were paid during the first quarter of 2011 included a partial period beginning from the Company's initial public offering on October 19, 2010.

### **Liquidity and Capital Resources**

Our capital resources include accessing the public debt and equity markets, when available, mortgage and construction loan financing and immediate access to the Credit Facility (discussed below).

As a REIT, we generally must distribute annually at least 90% of our REIT taxable income, excluding any net capital gain, in order for corporate income tax not to apply to earnings that we distribute. To the extent that we satisfy this distribution requirement, but distribute less than 100% of our REIT taxable income, we will be subject to U.S. federal corporate income tax on our undistributed taxable income. In addition, we will be subject to a 4% nondeductible

excise tax if the actual amount that we distribute to our stockholders in a calendar year is less than a minimum amount specified under U.S. federal income tax laws. We intend to make distributions to our stockholders to comply with the requirements of the Internal Revenue Code of 1986, as amended, and to avoid paying corporate tax on undistributed income. Additionally, we intend to make distributions that exceed these requirements. We may need to obtain financing to meet our distribution requirements because:

our income may not be matched by our related expenses at the time the income is considered received for purposes of determining taxable income; and

non-deductible capital expenditures, creation of reserves or debt service requirements may reduce available cash but not taxable income.

In these circumstances, we may be forced to obtain third-party financing on terms we might otherwise find unfavorable, and we cannot provide assurance that we will be able to obtain such financing. Alternatively, if we are unable or unwilling to obtain third-party financing on the available terms, we could choose to pay a portion of our distributions in stock instead of cash, or we may fund distributions through asset sales.

### ***Principal Capital Resources***

We have a revolving credit facility (the "Credit Facility") with Citibank, N.A. and certain other parties thereto. The revolving facility provides for borrowing capacity of up to \$200 million and includes an accordion feature that allows us to request an increase in the total commitments of an additional \$125 million to a total commitment of \$325 million. The Credit Facility matures in August 2014 and provides us a one-year extension option, subject to certain terms and conditions. Amounts outstanding under the Credit Facility bear interest at a floating rate equal to, at our election, the Eurodollar Rate or the Base Rate (each as defined in the Credit Facility) plus a spread. The spread depends upon our leverage ratio and ranges from 1.75% to 2.50% for Eurodollar Rate based borrowings and from 0.75% to 1.50% for Base Rate based borrowings. As of September 30, 2012, the interest rate on the Credit Facility was 2.49%. Under the Credit Facility, our distributions may not exceed the greater of (i) 95.0% of our funds from operations or (ii) the amount required for us to qualify and maintain our status as a REIT. If a default or event of default occurs and is continuing, we may be precluded from making certain distributions (other than those required to allow us to qualify and maintain our status as a REIT).

As of September 30, 2012 and December 31, 2011, approximately \$56.5 million and \$79.5 million was outstanding under the Credit Facility, respectively. At September 30, 2012, we had approximately \$91.8 million of borrowing capacity under the Credit Facility. Borrowings under the Credit Facility are generally used to finance our required equity contribution for projects under construction or for projects expected to be built and delivered for future academic years. Our ability to borrow under the Credit Facility is subject to our ongoing compliance with a number of customary financial covenants, as described further in our Annual Report on Form 10-K for the year ended December 31, 2011.



We and certain of our subsidiaries guarantee the obligations under the Credit Facility and we and certain of our subsidiaries have agreed to not encumber assets comprising the borrowing base used to determine the borrowing capacity under the Credit Facility. At September 30, 2012, we were in compliance with the above financial covenants with respect to the Credit Facility.

We are currently negotiating an amendment to increase the borrowing capacity as well as to modify certain other items under the Credit Facility. See Note 13 to the accompanying condensed consolidated financial statements for further discussion.

In November 2011, we filed a shelf registration statement which was declared effective by the Securities and Exchange Commission ("SEC") on December 8, 2011 and provides for the ability to issue up to \$750 million of debt and equity securities.

In February 2012, we closed an underwritten public offering of 2.3 million shares of our Series A Preferred Stock, including 0.3 million shares issued and sold pursuant to the exercise of the underwriters' overallotment option in full. See "Short-Term Liquidity Needs."

In July 2012, we issued approximately 7.5 million shares of common stock, including the full exercise of the underwriters' option to purchase additional shares. See "Short-Term Liquidity Needs."

### ***Short-Term Liquidity Needs***

The nature of our business, coupled with the requirement imposed by REIT rules that we distribute a substantial majority of our REIT taxable income on an annual basis in order for us to qualify as a REIT, will cause us to have substantial liquidity needs. Our short-term liquidity needs consist primarily of funds necessary to pay operating expenses associated with our properties, recurring capital expenditures, development and construction costs, interest expense, scheduled debt service payments and expected distribution payments (including distributions to persons who hold OP Units). We expect to meet our short-term liquidity needs through cash flow from operations and, to the extent necessary, borrowings under the Credit Facility.

On February 9, 2012, we closed an underwritten public offering of 2.3 million shares of our Series A Preferred Stock including 0.3 million shares issued and sold pursuant to the exercise of the underwriters' overallotment option in full. The shares of Series A Preferred Stock were issued at a public offering price of \$25.00 per share, for net proceeds of approximately \$54.9 million, after deducting the underwriting discount and other estimated offering costs. We used

the net proceeds to repay approximately \$48.9 million of indebtedness outstanding under two construction loans which had been used as partial funding for the four properties that were delivered for the 2011-2012 academic year. The remaining proceeds were used for general corporate purposes, including funding properties currently under development.

In July 2012, we closed an underwritten public offering of approximately 7.5 million shares of common stock, including 1.0 million shares issued and sold pursuant to the full exercise of the underwriters' option to purchase additional shares, resulting in net proceeds of approximately \$72.2 million. The net proceeds were used to: (1) acquire the remaining ownership interests in The Grove at Moscow, Idaho and The Grove at Valdosta, Georgia that we did not already own, and to repay the mortgage debt secured by these properties; and (2) to reduce borrowings outstanding under our Credit Facility. Remaining net proceeds are to be used for general corporate purposes.

### *Development Expenditures*

Our development activities have historically required us to fund pre-development expenditures such as architectural fees, engineering fees and earnest deposits. Because the closing of a development project's financing is often subject to various delays, we cannot always predict accurately the liquidity needs of these activities. We frequently incur these pre-development expenditures before a financing commitment has been obtained and, accordingly, bear the risk of the loss of these pre-development expenditures if financing cannot ultimately be arranged on acceptable terms.

We are currently building six new student housing properties, three of which are wholly-owned by us and three of which, including the aforementioned project in Indiana, Pennsylvania which we reached an agreement for subsequent quarter end, are owned by a joint ventures with HSRE in which we own interests of 20.0%. For each of these projects, we have commenced construction subsequent to significant pre-development activities. We estimate that the cost to complete the three wholly-owned properties will be approximately \$82.7 million. Additionally, we will be obligated to fund our pro rata portion of the development costs of our joint venture, with HSRE, and we estimate that the cost to complete the three joint venture properties will be approximately \$80.0 million and our net pro rata share of equity will be approximately \$4.8 million. No assurance can be given that we will complete construction of these six properties in accordance with our current expectations (including the estimated cost thereof). During 2011, we closed on all financing necessary for six of our 2012-2013 development projects, including \$31.5 million of construction financings for our wholly-owned projects in Auburn, Alabama and Orono, Maine, \$19.8 million for the remaining wholly-owned development in Flagstaff, Arizona, as well as \$52.6 million of construction loans for the three joint venture projects with HSRE. During 2012, we closed on all financing necessary for our five 2013-2014 development projects (we are in the process of obtaining funding for the newly agreed upon joint venture project in Indiana, Pennsylvania expected to close in the fourth quarter 2012), including \$49.7 million of construction financings for our wholly-owned projects in Ft. Collins, Colorado, Muncie, Indiana, and Pullman, Washington, as well as \$38.6 million of construction loans for the joint venture projects located in Norman, Oklahoma and State College, Pennsylvania. We intend to finance our share of the remaining construction costs through the Credit Facility.

We have identified over 200 markets and approximately 80 specific sites within these markets as potential future development opportunities, and our current business plan contemplates the development of approximately six to eight new student housing properties per year. No assurance can be given that we will not adjust our business plan as it relates to development, or that any particular development opportunity will be undertaken or completed in accordance with our current expectations.

### *Long-Term Liquidity Needs*

Our long-term liquidity needs consist primarily of funds necessary to pay for long-term development activities, non-recurring capital expenditures, potential acquisitions of properties and payments of debt at maturity. Long-term liquidity needs may also include the payment of unexpected contingencies, such as remediation of unknown environmental conditions at our properties or at additional properties that we develop or acquire, or renovations necessary to comply with the Americans with Disabilities Act of 1990, as amended, or other regulatory requirements. We do not expect that we will have sufficient funds on hand to cover all of our long-term liquidity needs. We will therefore seek to satisfy these needs through cash flow from operations, additional long-term secured and unsecured debt, including borrowings under the Credit Facility, the issuance of debt securities, the issuance of equity securities and equity-related securities (including OP Units), property dispositions and joint venture transactions. We believe that we will have access to these sources of capital to fund our long-term liquidity requirements, but we cannot make any assurance that this will be the case, especially in difficult market conditions.

### *Commitments*

The following table summarizes our contractual commitments as of September 30, 2012 (including future interest payments) (in thousands):

| Contractual Obligations                           | 2012     | 2013-2014  | 2015-2016 | Thereafter | Total      |
|---|----------|------------|-----------|------------|------------|
| Long-term debt principal payments and maturities  | \$ 283   | \$ 128,862 | \$ 48,294 | \$ 99,047  | \$ 276,486 |
| Interest payments on outstanding debt obligations | 2,755    | 19,725     | 14,464    | 12,831     | 49,775     |
| Operating lease obligations                       | 199      | 1,976      | 1,977     | 25,276     | 29,428     |
| Purchase commitments <sup>(1)</sup>               | 5,888    | 8,048      | -         | -          | 13,936     |
| Other long-term liabilities                       | -        | 129        | -         | -          | 129        |
| Total <sup>(2)</sup>                              | \$ 9,125 | \$ 158,740 | \$ 64,735 | \$ 137,154 | \$ 369,754 |

<sup>(1)</sup> Obligations relate to subcontracts associated with projects under construction and capital expenditures at September 30, 2012.

Excludes joint venture debt of approximately \$34.1 million that matures between November 2012 and January 2013, of which we are the 49.9% owner, approximately \$17.0 million that matures October 2013, of which we are the 20.0% owner, and approximately \$40.8 million that matures between December 2014 and January 2015, of which we are the 10.0% owner. We are the guarantor of these loans.

## **Off-Balance Sheet Arrangements**

### ***HSRE Joint Venture***

We have investments in real estate ventures with HSRE, which we do not consolidate. These joint ventures are engaged primarily in developing, constructing, owning and managing student housing properties in the United States. We and the joint venture partners hold joint approval rights for major decisions, including those regarding property acquisition and disposition as well as property operations. As such, we hold noncontrolling interests in these joint ventures and account for them under the equity method of accounting.

See "Our Relationship With HSRE" for additional information about each joint venture with HSRE.

## **Funds From Operations ("FFO")**

FFO is used by industry analysts and investors as a supplemental operating performance measure for REITs. We calculate FFO in accordance with the definition that was adopted by the Board of Governors of the National Association of Real Estate Investment Trusts ("NAREIT"). FFO, as defined by NAREIT, represents net income (loss) determined in accordance with U.S. GAAP, excluding extraordinary items as defined under U.S. GAAP and gains or losses from sales of previously depreciated operating real estate assets, plus specified non-cash items, such as real estate asset depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures. In addition, in October 2011, NAREIT communicated to its members that the exclusion of impairment write-downs of depreciable real estate is consistent with the definition of FFO.

We use FFO as a supplemental performance measure because, in excluding real estate-related depreciation and amortization and gains and losses from property dispositions, it provides a performance measure that, when compared year over year, captures trends in occupancy rates, rental rates and operating expenses. We also believe that, as a widely recognized measure of the performance of equity REITs, FFO will be used by investors as a basis to compare our operating performance with that of other REITs. However, because FFO excludes depreciation and amortization and captures neither the changes in the value of our properties that result from use or market conditions nor the level of capital expenditures necessary to maintain the operating performance of our properties, all of which have real economic effects and could materially and adversely impact our results of operations, the utility of FFO as a measure of our performance is limited.



While FFO is a relevant and widely used measure of operating performance of equity REITs, other equity REITs may use different methodologies for calculating FFO and, accordingly, FFO as disclosed by such other REITs may not be comparable to FFO published herein. Therefore, we believe that in order to facilitate a clear understanding of our historical operating results, FFO should be examined in conjunction with net income (loss) as presented in the condensed consolidated financial statements included elsewhere in this report. FFO should not be considered as an alternative to net income (loss) (computed in accordance with U.S. GAAP) as an indicator of our properties' financial performance or to cash flow from operating activities (computed in accordance with U.S. GAAP) as an indicator of our liquidity, nor is it indicative of funds available to fund our cash needs, including our ability to pay dividends or make distributions.

The following table presents a reconciliation of our FFO to our net income (loss) for the three and nine months ended September 30, 2012 and 2011 (dollars in thousands):

|   | Three Months Ended |                    | Nine Months Ended  |                    |
|---|--------------------|--------------------|--------------------|--------------------|
|   | September 30, 2012 | September 30, 2011 | September 30, 2012 | September 30, 2011 |
| Net income (loss) attributable to common stockholders                       | \$7,839            | \$ 408             | \$5,528            | \$ (702 )          |
| Net income (loss) attributable to noncontrolling interests                  | 61                 | 6                  | 38                 | 1                  |
| Gain on purchase of joint venture properties <sup>(1)</sup>                 | (6,554)            | -                  | (6,554)            | -                  |
| Real estate related depreciation and amortization                           | 5,726              | 4,809              | 17,319             | 15,054             |
| Real estate related depreciation and amortization - unconsolidated entities | 366                | 627                | 1,353              | 1,786              |
| FFO available to common shares and OP Units                                 | \$7,438            | \$ 5,850           | \$17,684           | \$ 16,139          |

<sup>(1)</sup> For 2012, gain is from the purchase of our joint venture partner's interest in The Grove at Moscow and The Grove at Valdosta.

In addition to FFO, we believe it is also a meaningful measure of our performance to adjust FFO to exclude the change in fair value of interest rate derivatives and other non-cash charges. Excluding the change in fair value of interest rate derivatives and other non-cash charges, adjusts FFO to be more reflective of operating results prior to capital replacement or expansion, debt service obligations or other commitments and contingencies. This measure is referred to herein as funds from operations adjusted ("FFOA").

The following table presents a reconciliation of our FFOA to our FFO for the three and nine months ended September 30, 2012 and 2011 (dollars in thousands):

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|  | Three Months Ended |                    | Nine Months Ended  |                    |
|--|--------------------|--------------------|--------------------|--------------------|
|  | September 30, 2012 | September 30, 2011 | September 30, 2012 | September 30, 2011 |
| FFO available to common shares and OP Units  | \$7,438            | \$ 5,850           | \$17,684           | \$ 16,139          |
| Elimination of change in fair value of interest rate derivatives <sup>(1)</sup>                          | -                  | -                  | -                  | (337 )             |
| Elimination of non-cash charge from the write-off of unamortized deferred financing costs <sup>(2)</sup> | -                  | -                  | 960                | -                  |
| FFOA available to common shares and OP Units   | \$7,438            | \$ 5,850           | \$18,644           | \$ 15,802          |

(1) Includes only the non-cash portion of the change in the fair value of unhedged derivatives.

Nine months ended September 30, 2012 includes approximately \$960,000 non-cash charge related to the write-off <sup>(2)</sup>of unamortized deferred financing costs associated with construction debt paid-off in connection with the February 2012 Series A Preferred Stock offering.

### Inflation

Our student housing leases typically do not have terms that extend beyond 12 months. Accordingly, although on a short-term basis we would be required to bear the impact of rising costs resulting from inflation, we have the opportunity to raise rental rates at least annually to offset such rising costs. However, our ability to raise rental rates may be limited by a weak economic environment, increased competition from new student housing in our primary markets and/or a reduction in student enrollment at our principal colleges and universities.

### ITEM 3. Quantitative and Qualitative Disclosures about Market Risk

We are exposed to market risk from changes in interest rates. We seek to limit the impact of interest rate changes on earnings and cash flows and to lower the overall borrowing costs by closely monitoring our variable rate debt and converting such debt to fixed rates when we deem such conversion advantageous. As of September 30, 2012, approximately \$124.2 million of our aggregate indebtedness (approximately 44.9% of total indebtedness) was subject to variable interest rates.

If market rates of interest on our variable rate long-term debt fluctuate by 1.0%, interest expense would increase or decrease, depending on rate movement, future earnings and cash flows by approximately \$1.2 million annually. This assumes that the amount outstanding under our variable rate debt remains at \$124.2 million, the balance as of September 30, 2012. From time to time, we enter into interest rate swap or cap agreements or other derivative financial instruments to manage, or hedge, interest rate risk related to variable rate borrowings outstanding under the

Credit Facility.

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While these agreements are intended to manage interest rate risk, they also expose us to the risks that the other parties to the agreements will not perform, we could incur significant costs associated with the settlement of the agreements, the agreements will be unenforceable and the underlying transactions will fail to qualify as highly-effective cash flow hedges under guidance included in Accounting Standards Codification 815 "Derivatives and Hedging." We do not, and do not expect to, use derivatives for trading or speculative purposes, and we expect to enter into contracts only with major financial institutions.

#### **Item 4. Controls and Procedures**

##### *Evaluation of Disclosure Controls and Procedures*

As required by SEC Rule 13a-15(b), we have carried out an evaluation, under the supervision of and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report. Based on the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures for the periods covered by this report were effective to ensure that information required to be disclosed by us in reports that we file or submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms and is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. There were no changes to our internal control over financial reporting during the third quarter ended September 30, 2012 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## **PART II. OTHER INFORMATION**

#### **Item 1. Legal Proceedings**

In the normal course of business, we are subject to claims, lawsuits and legal proceedings. While it is not possible to ascertain the ultimate outcome of all such matters, management believes that the aggregate amount of such liabilities, if any, in excess of amounts provided or covered by insurance, will not have a material adverse effect on our financial position or results of operations. Other than routine litigation arising in the ordinary course of business and after taking into account insurance coverage, we are not involved in any material litigation nor, to management's knowledge, is any material litigation currently threatened against us or our properties or subsidiaries.

We are not aware of any environmental liability with respect to the properties that could have a material adverse effect on our business, assets or results of operations. However, there can be no assurance that such a material environmental liability does not exist. The existence of any such material environmental liability could have an adverse effect on our results of operations and cash flows.

**Item 1A. Risk Factors**

For a discussion of our potential risks and uncertainties, see the section entitled "Risk Factors" beginning on page 9 of our Annual Report on Form 10-K for the year ended December 31, 2011. There have been no material changes to the risk factors disclosed in the Annual Report on Form 10-K for the year ended December 31, 2011.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

None.

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. Mine Safety Disclosures**

Not applicable.

**Item 5. Other Information**

None.

**ITEM 6. EXHIBITS**

| <b>Exhibit Number</b> | <b>Description of Document</b>   |
|-----------------------|--|
| 10.1                  | Amended Employment Agreement by and between Campus Crest Communities, Inc. and Earl C. Howell dated August 15, 2012. <sup>(1)</sup>  |
| 31.1*                 | Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.  |
| 31.2*                 | Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.  |
| 32.1*                 | Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.   |
|                       | The following materials from Campus Crest Communities, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2012 formatted in XBRL (eXtensible Business Reporting Language): (i) the Condensed Consolidated Balance Sheets, (ii) the Condensed Consolidated Statements of Operations and Comprehensive Income (Loss), (iii) the Condensed Consolidated Statement of Changes in Equity, (iv) the Condensed Consolidated Statements of Cash Flows, and (v) related notes to the Condensed Consolidated Financial Statements. |
| 101*                  |  |

As provided in Rule 406T of Regulation S-T, this information is furnished and not filed for purposes of Sections 11 and 12 of the Securities Act of 1933 and Section 18 of the Securities Exchange Act of 1934.

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\* Filed herewith.

<sup>(1)</sup> Previously filed as an exhibit to the registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on August 16, 2012 and incorporated herein by reference.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Dated: November 5, 2012

**CAMPUS CREST  
COMMUNITIES, INC.**

By: **/s/ Donald  
L. Bobbitt,  
Jr.  
Donald L.  
Bobbitt, Jr.  
Executive  
Vice  
President  
and  
Chief  
Financial  
Officer  
(Principal  
Financial  
Officer and  
Principal  
Accounting  
Officer)**

**Exhibit Index**

| Exhibit<br>Number | Description of Document |
|-------------------|-------------------------|
|-------------------|-------------------------|

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101\*

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\* Filed herewith.

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