

Campus Crest Communities, Inc.  
Form 10-K  
March 03, 2014



**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549**

**FORM 10-K**

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

**For the fiscal year ended December 31, 2013**

**TRANSITION REPORT UNDER 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)**

**Maryland  
(State or other jurisdiction of  
incorporation or organization)**

**27-2481988  
(I.R.S. Employer  
Identification No.)**

**2100 Rexford Road, Suite 414, Charlotte, NC  
(Address of principal executive offices)**

**28211  
(Zip Code)**

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

**Securities registered pursuant to Section 12(b) of the Act:**

<b>(Title of Each Class)</b>	<b>(Name of Each Exchange on Which Registered)</b>
Common Stock, \$0.01 par value	New York Stock Exchange
8% Series A Cumulative Redeemable Preferred Stock, \$0.01 par value	New York Stock Exchange

**Securities registered pursuant to Section 12(g) of the Act:**

**None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  
Yes  No

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Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes  No

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 report(s)), 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 (§ 232.405 of this chapter) 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 definitions of "large accelerated filer," "accelerated filer," and smaller reporting companies in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer

Non-accelerated filer  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

There were 64,491,814 shares of the registrant's common stock outstanding with a par value of \$0.01 per share as of the close of business on February 26, 2014. The aggregate market value of voting and non-voting common equity held by non-affiliates of the registrant as of June 30, 2013 was approximately \$744.8 million.

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**DOCUMENTS INCORPORATED BY REFERENCE**

Part II and III of this report incorporate certain information by reference to the registrant's definitive Proxy Statement to be filed with respect to the 2014 annual meeting of stockholders expected to be held on April 21, 2014.

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### **Explanatory Note**

Pursuant to Rule 3-09 of Regulation S-X (“Rule 3-09”), we are required to provide in this Annual Report on Form 10-K (“Form 10-K”) audited financial statements for the CB Portfolio for the period from March 18, 2013 to December 31, 2013. However, we are unable to file the audited financial information required by Rule 3-09 and have omitted such information in reliance on Rule 12b-21 promulgated under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and Rule 409 promulgated under the Securities Act of 1933, as amended. In connection with our acquisition of the CB Portfolio we were required to rely upon the sellers of the CB Portfolio to provide the necessary information to complete the audited financial statements as required under Rule 3-09. We requested such information and the former owners of the CB Portfolio cooperated in responding to such requests; however, they were not able to produce the records necessary to prepare the required audited financial statements under Rule 3-09. As a result, we have included in this Form 10-K an unaudited combined statement of revenues and certain expenses for the CB Portfolio for the period from March 18, 2013 to December 31, 2013. As a result of including such financial information for the CB Portfolio, we do not believe that the omission of the audited financial statements in accordance with Rule 3-09 will have a material impact on a reader’s understanding of our financial condition or our results of operations.

**FORM 10-K  
FOR THE YEAR ENDED DECEMBER 31, 2013**

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## CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This report contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). 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 the 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 may cause our actual results, performance or achievements to differ materially from those expressed or implied by forward-looking statements include, but are not limited to, the following:

the factors discussed in this report, 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 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 acquisitions or dispositions or additional joint venture transactions;

our ability to manage effectively our growth and expansion into new markets, including international markets, or to integrate acquisitions successfully, including our acquisition of the CB Portfolio (as defined herein);

changes in exchange rates for foreign currencies;

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;

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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 that 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;

our ability to extend the maturity of or refinance our existing debt, or comply with the financial and other covenants of the agreements that govern our existing debt;

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 and retain, 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 real estate investments trusts ("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 the factors set forth under the headings "Business," "Risk Factors," "Properties" and "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.

## **PART I**

### **Item 1. Business.**

#### **Our Company**

Campus Crest Communities, Inc., together with its subsidiaries, referred to herein as the "Company," "we," "us," "our," and "Campus Crest," is a self-managed, self-administered and vertically-integrated REIT focused on developing, building, owning and managing a diversified portfolio of high-quality, residence life student housing properties. We were incorporated in the State of Maryland on March 1, 2010. On October 19, 2010, we completed an initial public offering (the "Offering") of our common stock. As a result of the Offering and certain formation transactions entered into in connection therewith (the "Formation Transactions"), we currently own the sole general partner interest and own limited partner interests in Campus Crest Communities Operating Partnership, LP (the "Operating Partnership"). We hold substantially all of our assets, and conduct substantially all of our business, through the Operating Partnership. The Offering and Formation Transactions were designed to (i) continue the operations of Campus Crest Communities Predecessor (the "Predecessor"), (ii) reduce outstanding mortgage and construction loan indebtedness, (iii) enable us to acquire additional interests in certain of our student housing properties, (iv) fund development costs, (v) fund joint venture capital requirements, and (vi) establish sufficient working capital for general corporate purposes. The exchange of entities or interests in the Predecessor for units of limited partnership interests in the Operating Partnership ("OP units") has been accounted for as a reorganization of entities under common control. As a result, our assets and liabilities have been reflected at their historical cost basis.

In February 2013, we entered into purchase and sale agreements to acquire an approximate 48.0% interest in a portfolio of 35 student housing properties, one undeveloped land parcel and a corporate office building held by the members of Copper Beech Townhome Communities, LLC ("CBTC") and Copper Beech Townhome Communities (PA), LLC (the "CB Portfolio"), and a fully integrated platform and brand with management, development and construction teams, for an initial purchase price of approximately \$230.2 million, including the repayment of \$106.7 million of debt. The remaining interests in the CB Portfolio are held by certain of the former members of CBTC and CBTC PA, (the "CB Investors"). In September 2013, we entered into an amendment to the above referenced purchase and sale agreements for consideration of \$4.0 million whereby we will transfer our 48.0% interest in five properties in the Copper Beech Portfolio back to the CB Investors and defer the acquisition of two development properties as consideration for an additional 19.0% interest in each of the remaining 30 properties in the Copper Beech Portfolio. See Note 5 to the accompanying consolidated financial statements.

We believe that we are one of the largest vertically-integrated developers, builders, owners and managers of high-quality, residence life focused student housing properties in the United States, based on beds owned and under management. As of December 31, 2013, we owned interests in 41 operating student housing *The Grove*<sup>®</sup> properties containing approximately 8,151 apartment units and 22,303 beds. Thirty-one of our *The Grove*<sup>®</sup> properties are wholly-owned and ten of our *The Grove*<sup>®</sup> properties are owned through joint ventures with Harrison Street Real Estate Capital ("HSRE"). We also owned interests in 28 operating student housing Copper Beech branded properties containing approximately 5,047 apartment units and 13,177 beds. Our Copper Beech properties are owned by us and the CB Investors. As of December 31, 2013, our portfolio was as follows:



	Properties in Operation	Ownership		Number of Units	Number of Beds
Wholly owned Grove properties	31	100.0	%	6,065	16,571
Joint venture Grove properties:					
HSRE I	3	49.9	%	544	1,508
HSRE IV <sup>(1)</sup>	1	20.0	%	216	584
HSRE V	3	10.0	%	662	1,856
HSRE VI	3	20.0	%	664	1,784
Total Grove properties	41			8,151	22,303
CB Portfolio <sup>(2)</sup>	28	67.0	%	5,047	13,177
Total Portfolio <sup>(3)</sup>	69			13,198	35,480

(1) In January 2014, we acquired the remaining ownership interest in The Grove at Denton, Texas.

(2) As of December 31, 2013, we had an effective interest in the CB Portfolio of 67%.

(3) The redevelopment of our 100% owned property in Toledo, OH, which was acquired in March 2013, is excluded. We expect to announce more details on the redevelopment in 2014.

As of December 31, 2013, the average occupancy for our 41 *The Grove*<sup>®</sup> properties was approximately 90.1% and the average monthly total revenue per occupied bed was approximately \$519. Our operating properties are located in 19 states, contain modern apartment units with many resort-style amenities, and had an average age of approximately 3.7 years as of December 31, 2013. As of December 31, 2013, the average occupancy for our 28 Copper Beech branded properties was approximately 96.1%, and the average monthly total revenue per occupied bed was approximately \$493. Our properties 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 5,000 to 20,000 students. We believe such markets are underserved and are generally experiencing enrollment growth.

We have developed, built and managed substantially all of our wholly-owned properties and several of our unconsolidated joint venture properties, which are based upon a common prototypical residential building design. We believe that our use of this prototypical building design, which we have built approximately 675 times at our student housing properties (approximately 15 of such residential buildings comprise one student housing property), allows us to efficiently deliver a uniform and proven student housing product in multiple markets. The majority of our operating properties (other than those in the CB Portfolio, evo and Toledo) operate under *The Grove*<sup>®</sup> brand, and we believe that our brand and the associated lifestyle are effective differentiators that create higher visibility and appeal for our properties within their markets both with the student as well as the universities we serve.

In addition to our existing properties, we actively seek organic growth opportunities. We commenced building or redeveloping nine new student housing properties in 2013, one of which is owned by a joint venture with HSRE and Brandywine Realty Trust (“Brandywine”) in which we own a 30.0% interest and act as the co-developer, one of which is owned by a joint venture with Beaumont Partners SA (“Beaumont”) in which we owned a 20.0% interest at December 31, 2013, two of which are owned by a joint venture with HSRE in which we own a 30% interest, one of which is being built as a Copper Beech branded property in which our ownership interest is commensurate with the remainder of the CB Portfolio, and four of which are wholly-owned by us. In January 2014, we began redevelopment of one student housing property which is owned by a joint venture with Beaumont in which we own a 35.0% interest. The following is a summary of these developments:



Project	Location	Primary University Served	Ownership		Units	Beds	Estimated Project Cost <sup>(1)</sup>	Scheduled Opening for Occupancy
Wholly Owned:								
The Grove at Slippery Rock	Slippery Rock, PA	Slippery Rock University	100.0	%	201	603	29.9	August 2014
The Grove at Grand Forks	Grand Forks, ND	University of North Dakota	100.0	%	224	600	28.2	August 2014
The Grove at Mt. Pleasant	Mt. Pleasant, MI	Central Michigan University	100.0	%	216	584	24.1	August 2014
The Grove at Gainesville	Gainesville, FL	University of Florida	100.0	%	253	676	41.4	August 2014
Joint Venture:								
The Grove at Greensboro	Greensboro, NC	University of North Carolina at Greensboro	30.0	%	216	584	27.9	August 2014
The Grove at Louisville	Louisville, KY	University of Louisville	30.0	%	252	656	41.2	August 2014
evo at Cira Centre South	Philadelphia, PA	University of Pennsylvania/ Drexel University	30.0	%	344	850	158.5	August 2014
Copper Beech at Ames	Ames, IA	Iowa State University	67.0	%	219	660	33.6	August 2014
evo à Station-Square Victoria	Montreal, Quebec	McGill University/ Concordia University/ L'Ecole de Technologie	20.0	% <sup>(2)</sup>	715	1,290	82.9	August 2014
evo à Sherbrooke	Montreal, Quebec	McGill University	35.0	% <sup>(3)</sup>	488	952	83.5	August 2014
					3,128	7,455	\$ 551.2	

(1) Estimated project cost amounts are in millions.

(2) At December 31, 2013, our ownership percentage in CSH Montreal, the holding company that owns our joint venture with Beaumont, DCV Holdings, was 20.0%. Effective January 2014, with the closing of additional property, our ownership percentage increased to 35.0%. See Note 18 to the accompanying consolidated financial statements.

(3) Re-development property acquired by DCV Holdings on January 15, 2014. See Note 18 to the accompanying consolidated financial statements.

For each of these projects, we conducted significant pre-development activities and obtained necessary zoning and site plan approvals. In total, we have identified over 250 markets and approximately 80 specific sites within these markets as potential future development opportunities.

### REIT Status and Taxable REIT Subsidiaries

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"), commencing with our taxable year ended on December 31, 2010. 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 90% of our REIT taxable income. For all periods subsequent to the REIT election, we have met the organizational and operational requirements and distributions have exceeded 90% of our REIT taxable income.

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

### **Our Business and Growth Strategies**

Our objective is to maximize total returns to our stockholders through the pursuit of the following business and growth strategies:

*Utilize Our Vertically-Integrated Platform.* Our vertically-integrated platform performs each key function in the student housing value chain: project development, project construction, property management and asset management. Campus Crest Development, LLC, a North Carolina limited liability company ("Campus Crest Development"), identifies markets, selects sites and acquires all entitlements; Campus Crest Construction, LLC, a North Carolina limited liability company ("Campus Crest Construction"), oversees the design and construction of each project; The Grove Student Properties, LLC, a North Carolina limited liability company doing business as Campus Crest Real Estate Management ("The Grove Student Properties"), serves as our marketing, leasing and property management arm; and Campus Crest Asset Management, a division of Campus Crest Group ("Campus Crest Asset Management"), oversees our capital structure, investment underwriting and investor relations. Our vertically-integrated platform allows us to become familiar with every facet of our student housing properties. We believe that the ongoing feedback and accountability facilitated by our vertically-integrated platform allow us to improve efficiency, reduce costs, control project timing and enhance the overall quality of our properties.

*Target Attractive Markets.* Prior to investing in a market, we conduct detailed due diligence to assess the market's attractiveness (e.g., demographics and student population trends), as well as the available supply of on- and off-campus housing alternatives. We utilize a proprietary underwriting model to evaluate the relative attractiveness of each potential development market. While our market strategy considers a variety of factors, we generally focus on markets where: (i) total student enrollment exceeds 5,000; (ii) a majority of the student population resides off-campus; and (iii) sites that are in close proximity to campus can be purchased or leased at a reasonable cost. Our due diligence process is designed to identify markets in which we can operate successfully.

*Optimize Our Properties and Brand Value.* A key element of our strategy is to optimize the student lifestyle experience at our properties and enhance the value and recognition of our brand, *The Grove*<sup>®</sup>, through a consistent set of operating principles. We strive to offer properties that are designed to meet the unique needs of student-tenants, and to offer a variety of social activities and other programs that build a sense of community at our properties. Our property management group, The Grove Student Properties, continually works with our community assistant teams to design student lifestyle programs involving social, cultural, outreach, recreational, educational and sustainability activities, which we refer to as our "SCORES" program. We believe that our focus on student lifestyle promotes a sense of community at our properties which in turn improves occupancy and reduces demand elasticity.

*Development Growth.* We believe that our vertically-integrated platform generally allows us to generate more favorable returns by developing new properties or redeveloping existing properties. We anticipate that in-house development will be a key driver of our growth. Our current business plan contemplates the development of approximately six to eight new student housing properties per year.

*Acquisition Growth.* We may also seek to grow by selectively acquiring student housing properties and established multi-property portfolios from third parties and by making strategic investments in other student housing companies. As part of our investment strategy, we evaluate whether any properties acquired from third parties would meet our investment criteria for development properties and fit into our overall strategy in terms of property quality, proximity to campus, bed-bath parity, availability of amenities and return on investment. In addition, we may also seek to make opportunistic acquisitions of properties that we believe we can purchase at attractive pricing, reposition and operate successfully.

### **Property Management and Monitoring**

We maintain an on-site staff at each property, including a General Manager, Sales Manager and Maintenance Supervisor. The on-site staff is responsible for all aspects of the property's operations, including marketing, leasing administration, customer service, lifestyle, expense control, business administration, ongoing property maintenance, capital projects and residence life and student development. In addition, each property typically has 5 student-tenants that live on-site and work for us on a part-time basis. These individuals act as Community Assistants, or CA's and Leasing Consultants or LC's, that assist in developing lifestyle programming, building community, and ensuring all Tenants and guests needs are taken care of, and pursuing and closing all potential leads for continued leasing efforts. We also have a full time Senior Leasing Consultant that offers support to the Sales Manager and a Maintenance Tech that offers support to the Maintenance Supervisor. We provide oversight to each property on an area basis, with each "area" typically comprised of six to eight properties. Each area is staffed with an Area Manager and Area Sales Manager and our area team is supported by a Regional Manager and Regional Sales Manager respectively. The roles of our various staff members are described in greater detail below.

*General Managers, Sales Managers and Maintenance Supervisor.* The General Manager is responsible for all facets of a property's operation, including the development and implementation of student lifestyle programs, expense control, collection of rents, administration of accounts payable, customer service, implementation of the annual marketing plan, administration of all leasing and marketing functions, coordination of property maintenance, asset preservation and capital improvement projects. The General Manager also supervises the residence life program and conducts all hiring, termination, and staff development of on-site personnel. The Sales Manager supports the General Manager and focuses on the leasing and lifestyle programs at the property. The Maintenance Supervisor is responsible for coordinating all maintenance activity at the property and serving as a liaison for larger capital projects in concert with our in-house facilities group.

*CA's and LC's.* At each of our *The Grove*<sup>®</sup> properties, we also have a work/live program, typically consisting of 5 part-time positions for student staff members. At each property we generally maintain a ratio of 50-70 students per employee living on site. Our CAs and LCs are selected by our management based upon a set of criteria, including

interpersonal skills, leadership capabilities, responsibility, maturity and willingness to meet the challenges and expectations of the position. We use these positions to interface on a peer basis with our student-tenants and to assist with various duties at the properties. Further, we use this position as a feeder for us, which allows us to evaluate these part-time employees for potential full-time managerial positions with us after they graduate. It is a position that fits well with many students' academic goals while affording them opportunities for personal growth and leadership development. The CAs and LCs perform the duties of their position in exchange for their room and a stipend. CAs and LCs are trained to provide support and assistance to our student-tenants on a variety of issues. The CAs and LCs act as community facilitators by developing an atmosphere that promotes a sense of belonging, support and affiliation. In addition, the CAs and LCs participate actively in developing and implementing the property's programs and events in connection with our SCORES program. At all times, our CAs and LC's are expected to be role models and maintain the highest standards of personal conduct. Through observation and interaction with the community, the CAs and LC's help to identify potential problems and make appropriate referrals so that students may overcome obstacles to their academic achievement. Through their efforts to provide timely, accurate and thorough information in the appropriate format, CAs and LCs contribute to the smooth and effective operations of our properties. We believe that these positions are important to the success of our properties.

*Senior Leasing Consultant.* At each of properties, we now have a Senior Leasing Consultant who supports the leasing efforts driven by the Sales Manager. The Senior Leasing Consultants are responsible for achieving sales performance goals for their respective site. They are actively engaged in gaining new prospects, following up with prospects, and closing on sales to meet or exceed set goals. This position also assists in hiring and developing leasing consultants and community assistant personnel. Much like the CA and LC position, the Senior Leasing Consultant position is one developed to be a feeder for us to use at Sales Manager openings within our portfolio.

*Area Managers and Area Sales Managers.* The Area Manager is responsible for all facets of the operations of properties in his or her area, typically six to eight properties per area. He or she monitors the performance of the properties and the compliance of each of the General Managers with our programs and policies to preserve operational standards across all of the properties in his or her area. The Area Manager is the conduit between centralized planning at our corporate level and decentralized execution at each of the properties. Similar to the property-level Sales Manager, the Area Sales Manager provides support for leasing and lifestyle programming at all the properties in his or her area. As the corporate marketing department's liaison to area and property operations, the Area Sales Manager monitors the consistency of *The Grove*<sup>®</sup> brand across the properties and collaborates with the Area Managers and General Managers to market each property effectively.

*Regional Managers and Regional Sales Managers.* The Regional Manager is responsible for all facets of the operations of properties in his or her region, typically 2 areas accounting for 12-16 properties. He or she monitors the performance of his or her area to ensure compliance of all operational standards across their region. The Regional Manager is part of the conduit between the centralized planning at our corporate level and decentralized execution within each of their areas. The Regional Manager is also someone who works on the training and development of each of their Area Managers to improve the performance metrics for the overall company. The Regional Sales Manager, much like the Regional Manager, is responsible to support the leasing and lifestyle planning within each of their respective areas.

## **Leasing and Marketing**

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 occupied.

Unlike traditional multi-family housing, most of our leases commence and terminate on the same dates each year. In the case of our typical 11.5-month lease, these dates coincide with the commencement of the universities' fall academic term and typically terminate at the completion of the last 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, which typically begins each October and ends in September of the following year. As of the start of the fall term for the 2013-2014 and 2012-2013 academic years, we had approximately 41.7% and 41.9%, respectively, of our current tenants renew their lease for the upcoming academic year.

Each year we implement a marketing and leasing plan to re-lease each property. We advertise through various media, including print advertising in newspapers, magazines and trade publications; direct mailers; radio advertising; promotional events and public relation campaigns. We typically compete in the off-campus student housing market on the basis of:

- the quality of our facilities, including their proximity to college and university campuses, the size and layout of units and the types of amenities offered;

rental terms, including price, which varies based on the market in which the property is located, and per-bed rental (individual lease liability), which allows individual student-tenants to avoid responsibility for the rental of an entire apartment unit;

community environment, including community facilities, amenities and programming, which is overseen by our staff of CAs; and

our relationships with colleges and universities, which may result in our properties being recommended or listed in recruiting and admissions literature provided to incoming and prospective students.



### ***Student Programming / SCORES Program***

We believe that our success has been driven, in part, by our focus on student lifestyle programming, including our SCORES program. Our SCORES program is designed to enhance the student lifestyle by facilitating activities at our properties in the following areas:

· *Social*: parties, group events, movie nights, bonfires, concerts, tavern/game nights, tailgating and homecoming events;

· *Cultural*: attending plays, concerts, readings, art galleries and open microphone nights;

· *Outreach*: blood drives, big brother/big sister programs, mentoring, food drives/themed activities;

· *Recreational*: intramural sports teams and volleyball and basketball tournaments;

· *Educational*: CPR training, resume writing workshops, nutrition classes, self-defense training and job interview rehearsals; and

· *Sustainability*: recycling drives, tree planting initiatives, beautification and restoration projects, green living tips and green cleaning programs.

We believe that our student programming enhances the lifestyle of our student-tenants and helps to create an environment that is conducive to academic and social success. We do not approach our properties as simply a place for students to live, but rather we seek to assist our student-tenants in building connections with their fellow student-tenants, their communities and the colleges and universities that they attend. We believe that our focus on student lifestyle programming differentiates us from our competitors and makes our properties more attractive to prospective student-tenants and their parents.

### ***NEXT INITIATIVE***

NEXT is our commitment to the triple bottom line: a business philosophy that balances economic success with social and environmental stewardship. We believe we can do well by doing good, and we do well when we focus on people, planet and prosperity. NEXT is our one-word commitment to progress.

· *Building Innovation*: Advancing building design and construction for efficiency and resident well being,

· *Operate Responsibly*: Responsible property management and sustainable lifestyle programming for residents,

· *Serving Communities*: Giving back to communities through philanthropic social initiatives,

· *Balanced Living*: Empowering residents and employees to make healthy choices in their own lives.

### ***Business Segments***

We define business segments by their distinct customer base and services provided. 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. Unallocated corporate amounts include general expenses associated with managing our two reportable operating segments. See Note 15 to the accompanying consolidated financial statements.

### **Competition**

#### ***Competition from Universities and Colleges***

We are subject to competition for student-tenants from on-campus housing owned by universities and colleges. On-campus student housing has inherent advantages over off-campus student housing (such as the majority of our properties) in integrating with the academic community, which may cause student-tenants to prefer on-campus housing to off-campus housing. Additionally, colleges and universities may have financial advantages that allow them to provide student housing on more attractive terms than we are able to. For example, colleges and universities can generally avoid real estate taxes and borrow funds at lower interest rates than private, for profit real estate concerns, such as us. Residence halls owned and operated by the primary colleges and universities in the markets in which we operate typically charge lower rental rates but offer fewer amenities than those offered at our properties.

Despite the inherent advantages of on-campus housing, most universities are able to house only a small percentage of their overall enrollment, and are therefore highly dependent on the off-campus market to provide housing for their students. High-quality and well run off-campus student housing can therefore be a critical component of an institution's ability to attract and retain students. Accordingly, universities and colleges often have an interest in encouraging and facilitating the construction of modern off-cam