

Campus Crest Communities, Inc.
Form 10-Q
August 05, 2011

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q**

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended **June 30, 2011**

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)

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)

(704) 496-2500

(Registrant's telephone number, including area code)

(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 August 5, 2011

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Common Stock, \$0.01 par value per share

30,698,994 shares

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FOR THE QUARTER ENDED JUNE 30, 2011
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CAMPUS CREST COMMUNITIES, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)
(Unaudited)

	June 30, 2011	December 31, 2010
Assets		
Investment in real estate, net:		
Student housing properties	\$ 373,502	372,746
Accumulated depreciation	(66,943)	(57,463)
Development in process	74,105	24,232
Investment in real estate, net	380,664	339,515
Investment in unconsolidated entities	18,109	13,751
Cash and cash equivalents	8,754	2,327
Restricted cash and investments	1,826	3,305
Student receivables, net of allowance for doubtful accounts of \$961 and \$431 at June 30, 2011 and December 31, 2010, respectively	663	954
Cost in excess of construction billings	5,270	1,827
Other assets	9,640	9,578
Total assets	\$ 424,926	371,257
Liabilities and equity		
Liabilities:		
Mortgage and construction loans	\$ 72,564	60,840
Lines of credit	74,500	42,500
Accounts payable and accrued expenses	36,231	14,597
Other liabilities	5,790	6,530
Total liabilities	189,085	124,467
Equity:		
Stockholders' equity:		
Common stock, \$0.01 par value, 90,000,000 shares authorized, 30,698,994 and 30,682,215 shares issued and outstanding at June 30, 2011 and December 31, 2010, respectively	307	307
Additional paid-in capital	248,549	248,515
Accumulated deficit and distributions	(16,421)	(5,491)
Accumulated other comprehensive loss	(392)	(172)
Total Campus Crest Communities, Inc. stockholders' equity	232,043	243,159
Noncontrolling interests	3,798	3,631
Total equity	235,841	246,790

Total liabilities and equity	\$ 424,926	371,257
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See accompanying notes to condensed consolidated and combined financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011 Campus Crest Communities, Inc.	2010 Campus Crest Communities Predecessor	2011 Campus Crest Communities, Inc.	2010 Campus Crest Communities Predecessor
Revenues:				
Student housing rental	\$ 13,019	12,308	26,171	24,443
Student housing services	538	584	976	1,146
Development, construction and management services	11,333	15,081	21,617	30,864
Total revenues	24,890	27,973	48,764	56,453
Operating expenses:				
Student housing operations	6,356	6,907	12,824	13,301
Development, construction and management services	10,611	14,029	19,836	28,644
General and administrative	1,722	1,234	3,670	2,618
Ground leases	52	47	104	94
Depreciation and amortization	5,209	4,667	10,366	9,429
Total operating expenses	23,950	26,884	46,800	54,086
Equity in loss of unconsolidated entities	(340)	(114)	(635)	(194)
Operating income	600	975	1,329	2,173
Nonoperating income (expense):				
Interest expense	(1,360)	(6,217)	(2,735)	(10,686)
Change in fair value of interest rate derivatives	141	155	337	178
Other income	55	12	154	45
Total nonoperating expenses	(1,164)	(6,050)	(2,244)	(10,463)
Loss before income taxes	(564)	(5,075)	(915)	(8,290)
Income tax expense	(77)		(200)	
Net loss	(641)	(5,075)	(1,115)	(8,290)
Net loss attributable to noncontrolling interests	(3)	(2,913)	(5)	(5,025)

Net loss attributable to Campus Crest Communities, Inc. and Predecessor	\$ (638)	(2,162)	(1,110)	(3,265)
Net loss per share attributable to Campus Crest Communities, Inc.:				
Basic and diluted	\$ (0.02)		(0.04)	
Weighted-average common shares outstanding:				
Basic and diluted	30,721		30,712	
Distributions per common share	\$ (0.16)		(0.32)	

See accompanying notes to condensed consolidated and combined financial statements.

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

	Number of Common Shares	Common Stock	Additional Paid-In Capital	Accumulated and Deficit Distributions	Other Comprehensive Loss	Total Campus Crest Communities, Inc. Stockholder Equity	Noncontrolling Interests	Total Equity
Balance, December 31, 2010	30,682	\$ 307	248,515	(5,491)	(172)	243,159	3,631	246,790
Distributions				(9,820)		(9,820)	(140)	(9,960)
Issuance of restricted stock	17							
Amortization of restricted stock awards and OP units			168			168	312	480
Costs related to initial public offering			(134)			(134)		(134)
Comprehensive loss:								
Change in fair value of interest rate derivatives					(220)	(220)		(220)
Net loss				(1,110)		(1,110)	(5)	(1,115)
Total comprehensive loss								(1,335)
Balance, June 30, 2011	30,699	\$ 307	248,549	(16,421)	(392)	232,043	3,798	235,841

See accompanying notes to condensed consolidated and combined financial statements.

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

	Six Months Ended June 30,	
	2011 Campus Crest Communities, Inc.	2010 Campus Crest Communities Predecessor
Operating activities:		
Net loss	\$ (1,115)	(8,290)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	10,366	9,429
Amortization of deferred financing costs	558	318
Accretion of interest expense		1,376
Bad debt expense	555	304
Change in fair value of interest rate derivatives	(337)	(2,893)
Equity in loss of unconsolidated entities	635	194
Compensation expense related to share based payments	125	
Changes in operating assets and liabilities:		
Restricted cash and investments	1,479	(393)
Student receivables	(264)	(60)
Construction billings	(4,737)	527
Accounts payable and accrued expenses	4,220	6,586
Other	(86)	(4,359)
Net cash provided by operating activities	11,399	2,739
Investing activities:		
Investments in development in process	(40,259)	(694)
Investments in student housing properties	(756)	(1,766)
Investments in unconsolidated entities	(3,115)	(202)
Distributions from unconsolidated entities	5,082	
Purchase of corporate fixed assets	(28)	
Net cash used in investing activities	(39,076)	(2,662)
Financing activities:		
Payment of offering costs	(134)	
Proceeds from construction loans	11,724	497
Proceeds from lines of credit and other debt	32,000	2,290
Principal payments on construction loans		(225)
Payments on lines of credit and other debt		(47)
Debt issuance costs	(553)	
Contributions from owner of Predecessor		241

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Contributions from noncontrolling interests of Predecessor		405
Distributions to owner of Predecessor		(1,131)
Distributions to noncontrolling interests of Predecessor		(1,955)
Distributions to stockholders	(8,808)	
Distributions to noncontrolling interests	(125)	
Net cash provided by financing activities	34,104	75
Net change in cash and cash equivalents	6,427	152
Cash and cash equivalents at beginning of period	2,327	2,902
Cash and cash equivalents at end of period	\$ 8,754	3,054

Supplemental disclosure of cash flow information:

Interest paid	\$ 2,928	7,604
Income taxes paid	\$	

Non-cash investing and financing activity:

Changes in payables related to distributions to stockholders	\$ 1,012	
Changes in payables related to distributions to noncontrolling interests	\$ 15	
Change in payables related to capital expenditures	\$ 16,387	661
Accrued costs related to investments in uncombined entities	\$	225
Contribution of development in process to unconsolidated entity	\$ 7,666	

See accompanying notes to condensed consolidated and combined financial statements.

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CAMPUS CREST COMMUNITIES PREDECESSOR****NOTES TO CONDENSED CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS****1. Organization and Description of Business**

Campus Crest Communities, Inc. (along with its subsidiaries, the Company, we, us or our) is engaged in the business of developing, constructing, owning and managing high-quality, purpose-built student housing properties in the United States. The Company was incorporated in the State of Maryland on March 1, 2010. Campus Crest Communities Predecessor (the Predecessor) is not a legal entity, but rather a combination of certain vertically integrated operating companies under common ownership. The Predecessor reflects the historical combination of all facets of the vertically integrated business operations of the student housing related entities of the Company prior to its ownership of these entities.

On October 19, 2010, the Company completed an initial public offering (the Offering) of 28,333,333 shares of its common stock. On November 18, 2010, underwriters of the Offering closed on their option to purchase an additional 2,250,000 shares of common stock to cover the overallotment option granted by the Company to its underwriters. Total Offering-related proceeds to the Company as a result of both of these transactions totaled approximately \$382.3 million. Total Offering-related expenses were approximately \$31.9 million and consisted of the underwriting discount and other expenses payable by the Company.

As a result of the Offering and certain formation transactions entered into in connection therewith (the Formation Transactions), the Company currently owns the sole general partner interest and limited partner interests in Campus Crest Communities Operating Partnership, LP (the Operating Partnership). As part of the Formation Transactions, the owner of the Predecessor and certain third-party investors were granted limited partnership interests in the Operating Partnership (OP units). The exchange of entities or interests therein for OP units was accounted for as a reorganization of entities under common control. As a result, the Company s assets and liabilities are reflected at their historical cost basis.

The Company elected and qualified to be taxed as a real estate investment trust (REIT) for U.S. federal income tax purposes commencing with its taxable year ended December 31, 2010. As a REIT, the Company generally is not subject to U.S. federal income tax on taxable income that it distributes currently to its stockholders.

The following tables illustrate the number of properties in which the Company has interests, both operating and under construction, at June 30, 2011 and December 31, 2010:

	June 30, 2011		
	Properties in operation	Properties under construction⁽²⁾	Effective ownership percentage
Consolidated entities	21	4	100%
Unconsolidated entities ⁽¹⁾	6	2	20 49.9%
Total	27	6	

	December 31, 2010		
	Properties in operation	Properties under construction⁽²⁾	Effective ownership percentage
Consolidated entities ⁽¹⁾	21	6	100%
Unconsolidated entities	6		49.9%

Total	27	6
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- (1) Subsequent to December 31, 2010, two properties under construction were contributed to an unconsolidated entity.
- (2) The Company expects to complete construction and commence operations at each of these properties in August 2011.

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The accompanying unaudited condensed consolidated and combined financial statements of the Company and the Predecessor, respectively, have been prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP) and instructions to Form 10-Q. They do not include all the information and footnotes required by U. S. GAAP for complete financial statements. In the opinion of management, all adjustments (consisting solely of normal recurring matters) necessary for a fair presentation of the condensed consolidated and combined financial statements for these interim periods have been included.

The condensed consolidated financial statements of the Company include the financial position, results of operations and cash flows of the Company, the Operating Partnership and subsidiaries of the Operating Partnership. Third-party equity interests in the Operating Partnership are reflected as noncontrolling interests in the condensed consolidated financial statements. The condensed combined financial statements of the Predecessor reflect the Predecessor and its subsidiaries, including ventures in which the Predecessor had a controlling interest. Interests in combined entities held by an entity other than the Predecessor are reflected as noncontrolling interests in the condensed combined financial statements. The Company and Predecessor also have ownership 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 Company, which was incorporated on March 1, 2010, had no operations for the period from its formation through October 18, 2010, as its primary purpose upon formation was to facilitate completion of the Offering and, upon completion, continue the operations of the Predecessor. Since the Predecessor's combined results of operations reflect the operations of the Company prior to its ownership of the entities which conduct these operations, the Predecessor's condensed combined results of operations have been prepared and presented for the three and six months ended June 30, 2010.

The unaudited interim condensed consolidated and combined financial statements should be read in conjunction with the Company's and the Predecessor's audited consolidated and combined financial statements, respectively, and accompanying notes for the year ended December 31, 2010 included in the Company's Annual Report on Form 10-K for the year ended December 31, 2010 filed with the Securities and Exchange Commission (SEC). 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 consolidated and combined 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. It is at least reasonably possible that these estimates could change in the near term.

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:

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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, which include interest, property taxes and the amortization of deferred financing costs recognized while the project is under construction. Additionally, the Company capitalizes certain internal costs related to the development and construction of its student housing properties. All costs are capitalized as development in process until the asset is ready for its intended use, which is typically upon receipt of a certificate of occupancy. Upon completion, costs are transferred into the applicable asset category and depreciation commences. Interest totaling approximately \$0.4 million and \$0.1 million was capitalized during the three months ended June 30, 2011 and 2010, respectively, and approximately \$0.8 million and \$0.1 million was capitalized during the six months ended June 30, 2011 and 2010, respectively.

Pre-development costs are capitalized until such time that management believes it is no longer probable that a contract will be executed for the acquisition of property and/or construction will commence. Because we frequently incur 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 consolidated and combined statements of operations. As of June 30, 2011 and December 31, 2010, we deferred approximately \$1.9 million and \$0.9 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. Also included in development in process on the accompanying condensed consolidated balance sheets as of June 30, 2011 and December 31, 2010 are approximately \$72.2 million and \$23.3 million, respectively, of costs related to projects for which construction is in process or land has been acquired.

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 charged to operating earnings. Fair value is determined based upon the discounted cash flows of the property, quoted market prices or independent appraisals, as considered necessary.

Property Acquisitions

The Company allocates the purchase price of acquired properties to net tangible and identified intangible assets based on relative fair values. Fair value estimates are based on information obtained from independent appraisals, other 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 an estimate 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. Amortization expense was approximately \$0.4 million and \$0 for the

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three months ended June 30, 2011 and 2010, respectively, and approximately \$0.8 million and \$0 for the six months ended June 30, 2011 and 2010, respectively. The amortization of in-place leases is included in depreciation and amortization expense in the accompanying condensed consolidated statements of operations. 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 lease renewals.

Deferred Financing Costs

We defer costs incurred in obtaining financing and amortize the costs over the terms of the related loans using the effective interest method. Upon repayment of or in conjunction with a material change in the terms of the underlying debt agreement, any unamortized costs are charged to earnings. Deferred financing costs, net of amortization, are included in other assets on the accompanying condensed consolidated balance sheets. Amortization of deferred financing costs, which is included in interest expense in the accompanying condensed consolidated and combined statements of operations, approximated \$0.3 million and \$0.2 million for the three months ended June 30, 2011 and 2010, respectively, and approximated \$0.6 million and \$0.3 million for the six months ended June 30, 2011 and 2010, respectively.

Noncontrolling Interests

Noncontrolling interests represent the portion of equity in the Company's consolidated subsidiaries which are not attributable to our stockholders. Accordingly, noncontrolling interests are reported as a component of equity in the accompanying condensed consolidated balance sheets but separate from stockholders' equity. On the condensed consolidated and combined statements of operations, operating results are reported at their consolidated and combined amounts, including both the amount attributable to us and to noncontrolling interests. See note 5.

Real Estate Ventures

We hold interests in all properties, both under development and in operation, through interests in both consolidated and unconsolidated real estate ventures. The Company assesses its 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 do not consolidate the entity for financial reporting purposes. For entities that are not defined as VIEs, management first considers whether we are the general partner or a limited partner (or the equivalent in such investments which are not structured as partnerships). We consolidate entities where: (i) we are the general partner (or the equivalent); and (ii) the limited partners (or the equivalent) in such investments do not have rights which would preclude control and, therefore, consolidation for financial reporting purposes.

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 on 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. When circumstances indicate there may have been a loss in value of an equity method investment, we evaluate the investment for impairment by estimating our ability to recover the investment from future expected discounted cash flows. If we determine the loss in value is other than temporary, we recognize an impairment charge to reflect the investment at fair value.

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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 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 service 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 ownership 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. If 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.

Management fees, net of elimination to the extent of our ownership interest in an unconsolidated entity, are recognized when earned in accordance with each management contract for entities we do not consolidate. 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

In certain instances, interest rate cap agreements and interest rate swap agreements are used 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 accumulated other comprehensive income (loss), depending on whether the derivative has been designated as a fair value or 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. The Company discontinues hedge accounting when: (i) it determines that the derivative is no longer effective in offsetting changes in the fair value or 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 and combined statements of operations. Also included within this line item are any required monthly settlements on interest rate swaps, as well as all cash settlements paid. The Company's counterparties are major financial institutions.

Table of Contents***Fair Value of Financial Instruments***

Financial instruments consist primarily of cash, cash equivalents, student receivables, interest rate caps, interest rate swaps, accounts payable, mortgages, construction notes payable and lines of credit. The carrying value of cash, cash equivalents, student receivables and accounts payable are representative of their respective fair values due to the short-term nature of these instruments. The estimated fair values of mortgages, construction notes payable and lines of credit 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 notes payable. The fair values of mortgages, construction notes payable and lines of credit are disclosed in note 9.

The estimated fair values of 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 the creditworthiness of the swap counterparties.

Fair value guidance for financial assets and liabilities which are recognized and disclosed in the 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 the Company makes its 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.

Interest rate caps and interest rate swaps measured at fair value at June 30, 2011 and December 31, 2010 are as follows (amounts in thousands):

		Quoted Prices in Active Markets for Identical Assets and Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at End of Period
Other assets:					
June 30, 2011	Interest rate caps	\$	29		29
December 31, 2010	Interest rate caps	\$	103		103
Other liabilities:					
June 30, 2011	Interest rate swaps	\$	(261)		(261)
December 31, 2010	Interest rate swaps	\$	(452)		(452)

Table of Contents***Commitments and Contingencies***

Liabilities for loss contingencies, arising from claims, assessments, litigation, fines, penalties and other sources, are recorded when it is probable that a liability has been incurred and the amount of the assessment can be reasonably estimated. Legal costs incurred in connection with loss contingencies are expensed as incurred.

Income Taxes

The Company elected to be treated as a REIT under Sections 856 through 859 of the Internal Revenue Code commencing with the Company's taxable year ended on December 31, 2010. The Company's qualification as a REIT depends upon its 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 the Company's gross income, the composition and values of its assets, its distribution levels and the diversity of ownership of its stock. The Company believes that it is organized in conformity with the requirements for qualification and taxation as a REIT under the Internal Revenue Code and that the Company's intended manner of operation will enable it to meet the requirements for qualification and taxation as a REIT.

As a REIT, the Company generally will not be subject to U.S. federal and state income tax on taxable income that it distributes currently to its stockholders. If the Company fails to qualify as a REIT in any taxable year and does not qualify for certain statutory relief provisions, the Company 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 it lost its 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. Even if the Company qualifies as a REIT, we will be subject to some U.S. federal, state and local taxes on our income or property and the income of our taxable REIT subsidiaries will be subject to taxation at normal corporate rates.

The Company wholly owns four taxable REIT subsidiary (TRS) entities that manage the Company's non-REIT activities and each is subject to federal, state and local income and franchise taxes. Deferred tax assets and liabilities 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. For the three and six months ended June 30, 2011, we recorded a federal and state income tax provision related to our TRS subsidiaries of approximately \$0.1 million and \$0.2 million, respectively.

The combined entities of the Predecessor are all limited liability companies or limited partnerships and elected to be taxed as partnerships for federal income tax purposes. As a result, no provision for income taxes has been recorded in the accompanying condensed combined financial statements of the Predecessor as all income and losses of the Predecessor are allocated to the owners for inclusion in their respective tax returns.

Comprehensive Loss

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

Share-Based Compensation

The Company awards restricted stock and restricted OP unit awards that vest in equal annual installments over either a three or five year period. A restricted stock or OP unit award is an award of the Company's common stock or OP units that are subject to restrictions on transferability and other restrictions determined by the Company's 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 the Company's compensation committee and board of directors. The restrictions may lapse over a specified period of employment or the satisfaction of pre-established criteria as the Company's compensation committee may determine. Except to the extent restricted under the award agreement, a participant awarded restricted shares or OP units has all the rights of a stockholder or OP unit holder as to these shares or units,

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including the right to vote the shares 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 the Company's common stock on the grant date and is recognized on a straight-line basis 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. During the three and six months ended June 30, 2011, approximately \$0.3 million and \$0.5 million, respectively, of compensation expense was recognized in the accompanying condensed consolidated financial statements related to the vesting of restricted stock and restricted OP units. See note 10.

Recent Accounting Pronouncements

In June 2011, the Financial Accounting Standards Board (FASB) issued new accounting guidance which eliminates the option to report other comprehensive income (loss) and its components in the statement of changes in equity. Entities will have the option to present the components of net income (loss) and other comprehensive income (loss) in either a single continuous statement or two separate but consecutive statements. This guidance requires retrospective application and is effective for annual periods, and interim periods contained within those annual periods, beginning after December 31, 2011. We have not yet decided on the format that will be used in future periods. The standard will not change the recognition or measurement of net income (loss) or comprehensive income (loss).

In May 2011, the FASB issued new accounting guidance which provides clarification about how fair value should be applied where it is used or permitted to be used under U.S. GAAP. This guidance requires prospective application and is effective for interim and annual periods beginning after December 15, 2011. We are currently evaluating what impact, if any, its adoption will have on our consolidated financial statements.

In July 2010, the FASB issued new accounting guidance requiring additional disclosure related to the credit quality of certain receivables and the allowance for losses. It is effective for our annual reporting period ending December 31, 2011. We are currently evaluating what impact, if any, its adoption will have on our consolidated financial statements.

In January 2010, the FASB issued new accounting guidance requiring additional disclosure related to the fair value of financial instruments. Transfers between the three levels within the fair value hierarchy, as well as changes in an entity's Level 3 fair value instruments, require additional disclosure. This guidance was effective for us beginning on January 1, 2011. The adoption did not have a material impact on our consolidated financial statements.

3. Earnings per Share

Basic earnings per share is computed by dividing net loss attributable to the Company's stockholders by the weighted average number of shares of the Company's common stock outstanding during the period. All unvested share based payment awards are included in the computation of basic earnings per share. Diluted earnings per share reflect common shares issuable from the assumed conversion of OP units and restricted OP units and other potentially dilutive securities.

A reconciliation of the numerators and denominators for basic and diluted earnings per share computations is not required as the Company reported a net loss for the three and six months ended June 30, 2011, and therefore the effect of the inclusion of all potentially dilutive securities would be anti-dilutive when computing diluted earnings per share. Therefore, the computation of both basic and diluted earnings per share is the same. For the three and six months ended June 30, 2011, 435,593 OP units and restricted OP units were not included in the computation of diluted earnings per share because the effects of their inclusion would be anti-dilutive.

At June 30, 2011 and December 31, 2010, accrued dividends and OP unit distributions of approximately \$5.0 million and \$4.0 million, respectively, are recorded in accounts payable and accrued expenses on the Company's condensed consolidated balance sheets.

Table of Contents**4. Student Housing Properties**

Student housing properties, net, consisted of the following (amounts in thousands):

	June 30, 2011	December 31, 2010
Land	\$ 26,369	26,369
Buildings and improvements	304,709	304,447
Furniture, fixtures and equipment	42,424	41,930
	373,502	372,746
Accumulated depreciation	(66,943)	(57,463)
	\$ 306,559	315,283

5. Noncontrolling Interests***Company Noncontrolling Interests – Operating Partnership Units***

Certain limited partners in the Operating Partnership, which total approximately 1.5% of the limited partnership interest in the Operating Partnership, hold their ownership units through entities which are not affiliates or subsidiaries of the Company. OP units are exchangeable into cash or, at the Company's election, an equal number of shares of the Company's common stock. OP units have the same economic characteristics as shares of the Company's common stock, as they effectively participate equally in the net income and distributions of the Operating Partnership.

The holders of OP Units have the right to require the Operating Partnership to redeem part or all of the OP Units for cash based upon the fair market value of an equivalent number of shares of the Company's common stock at the time of redemption. However, the Company may, in its sole discretion, elect to redeem the OP Units in exchange for common stock. Based on this assessment, which includes the evaluation of terms in the agreements related to redemption provisions, the Company has classified these noncontrolling interests as a component of permanent equity on the accompanying condensed consolidated balance sheets. The share of net loss allocated to these OP units is reported on the accompanying condensed consolidated statements of operations for the three and six months ended June 30, 2011 as net loss attributable to noncontrolling interests. For the three and six months ended June 30, 2011, no OP units were redeemed.

Predecessor Noncontrolling Interests – Third-Party Venture Partners

Prior to completion of the Offering, the Predecessor combined real estate ventures which wholly owned 20 operating student housing properties. Each of these real estate ventures had third-party partners other than the Predecessor or its affiliates. The third-party owners' share of the income or loss of the entities is reported on the accompanying condensed combined statements of operations for the three and six months ended June 30, 2010 as net loss attributable to noncontrolling interests.

6. Property Acquisition

On October 19, 2010, we acquired from Harrison Street Real Estate, a real estate private equity firm (HSRE), the remaining interest in Campus Crest at San Marcos, LLC, which owns The Grove at San Marcos. Prior to this transaction, The Grove at San Marcos was wholly owned by a real estate venture, HSRE-Campus Crest I, LLC, in which the Company and HSRE are members and had 10% and 90% member interests, respectively (see note 8). Prior to the acquisition of this interest, the Company accounted for its ownership interest in The Grove at San Marcos under the equity method of accounting. Subsequent to its acquisition of this interest, the Company consolidated the results of operations of The Grove at San Marcos. In connection with the accounting for its purchase of the remaining interest in the property, the Company recorded a gain of approximately \$0.6 million during the period from October 19, 2010 through December 31, 2010 related to the remeasurement of its previously held equity interest in The Grove at San

Marcos at the acquisition date.

Table of Contents**7. Sales of Interests in Properties and Real Estate Ventures**

In November 2009, we sold 90% of our interest in The Grove at Milledgeville to an affiliate of HSRE. We received proceeds from the sale of approximately \$3.9 million. Concurrent with the Offering and Formation Transactions, the Company repurchased the 90% interest in The Grove at Milledgeville, with the result that the Company owned 100% of The Grove at Milledgeville on October 19, 2010. Because of our continuing involvement in this asset and because this transaction had financing elements, we did not record this transaction as a sale for financial reporting purposes. The proceeds were recorded as a loan and the Predecessor continued to combine the balance sheet and results of operations of Campus Crest at Milledgeville, LLC, the entity which owns the property, through October 18, 2010. The difference between the sale proceeds and contracted repurchase price was accreted and recorded as interest expense in the Predecessor's condensed combined statement of operations. For the three and six months ended June 30, 2010, interest expense related to this transaction totaled approximately \$0.6 million and \$1.0 million, respectively.

In March 2010, we sold 99% of our interest in HSRE-Campus Crest I, LLC, which represented a 9.9% interest in the underlying venture, to an affiliate of HSRE. Total proceeds received were approximately \$2.25 million. Concurrent with the Offering and Formation Transactions, the Company repurchased the 9.9% interest in HSRE-Campus Crest I, LLC. As a result, the transaction was accounted for as a financing. The difference between the proceeds received and the contracted repurchase amount was accreted and recorded as interest expense in the Predecessor's condensed combined statement of operations. For the three and six months ended June 30, 2010, interest expense related to this transaction totaled approximately \$0.3 million and \$0.4 million, respectively.

In September 2010, we sold 99.9% of our interest in The Grove at Carrollton to an affiliate of HSRE. We received proceeds from the sale of approximately \$0.8 million. Concurrent with the Offering and Formation Transactions, the Company repurchased the 99.9% interest in The Grove at Carrollton, with the result that the Company owned 100% of The Grove at Carrollton on October 19, 2010. Because of our continuing involvement in this asset and because the transaction had financing elements, we did not record this transaction as a sale for financial reporting purposes. The proceeds were recorded as a loan and the Predecessor continued to combine the balance sheet and results of operations of Campus Crest at Carrollton, LLC, the entity which owns the property, through October 18, 2010. The difference between the sale proceeds and contracted repurchase price was accreted and recorded as an interest expense in the Predecessor's condensed combined statement of operations.

8. Investment in Unconsolidated Entities

We have investments in two real estate venture entities with HSRE. The first real estate venture, HSRE-Campus Crest I, LLC (HSRE I), is not consolidated by the Company. At June 30, 2011 and December 31, 2010, this entity, in which our investment is accounted for under the equity method, owned six student housing properties. Three of these properties, The Grove at Lawrence, The Grove at Moscow and The Grove at San Angelo, opened in 2009. The remaining three properties, The Grove at Huntsville, The Grove at Conway and The Grove at Statesboro opened in 2010. We held a 49.9% noncontrolling interest in this unconsolidated entity at June 30, 2011 and December 31, 2010. Prior to the Offering and Formation Transactions, we held a 10% noncontrolling interest in this venture. As discussed in note 6, also prior to the Offering, the HSRE I venture owned an additional student housing property, The Grove at San Marcos. The Company acquired the remaining ownership interest in this property, which opened in 2009, concurrent with the Offering and Formation Transactions.

The second real estate venture, HSRE-Campus Crest IV, LLC (HSRE IV), was entered into on January 20, 2011. HSRE will contribute up to \$50 million to the venture, which will develop and operate additional purpose-built student housing properties. The Company's investment in this real estate venture is accounted for under the equity method. We own a 20% noncontrolling interest in this unconsolidated entity at June 30, 2011. HSRE IV is currently constructing two new student housing properties with completion targeted for the 2011-2012 academic year, The Grove at Denton and The Grove at Valdosta. The Company made contributions to HSRE IV of approximately \$3.0 million during the six months ended June 30, 2011, consisting of cash and assigned interests in Campus Crest at Denton, LP and Campus Crest at Valdosta, LLC.

We recorded equity in loss from these ventures of approximately \$(0.3) million and \$(0.1) million for the three months ended June 30, 2011 and 2010, respectively, and approximately \$(0.6) million and \$(0.2) million for

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the six months ended June 30, 2011 and 2010, respectively. In addition to acting as the operating member for these ventures, the Company and its Predecessor are entitled to receive fees for providing development and construction services (as applicable) and management services to the ventures. The Company earned approximately \$11.3 million and \$15.1 million in fees for the three months ended June 30, 2011 and 2010, respectively, and approximately \$21.6 million and \$30.9 million in fees for the six months ended June 30, 2011 and 2010, respectively, for services provided to the ventures. The development, construction and management service fees from these unconsolidated entities are reflected in the development, construction and management services line item in the accompanying condensed consolidated and combined statements of operations.

The Company is the guarantor of the construction debt of these ventures, which totaled approximately \$102.7 million and \$83.2 million at June 30, 2011 and December 31, 2010, respectively. The ventures' construction debt matures at various dates between 2011 and 2013.

Condensed combined financial information for these unconsolidated entities as of June 30, 2011 and December 31, 2010 and for the three and six month periods ended June 30, 2011 and 2010 are as follows (amounts in thousands):

Balance Sheets

	June 30, 2011	December 31, 2010
Assets:		
Student housing properties, net	\$ 110,690	112,224
Development in process	38,211	
Other assets	7,231	5,444
Total assets	\$ 156,132	117,668
Liabilities and owners' equity:		
Construction debt	\$ 102,717	83,222
Other liabilities	9,561	5,117
Owners' equity	43,854	29,329
Total liabilities and owners' equity	\$ 156,132	117,668
Share of historical owners' equity	\$ 14,952	12,479
Preferred investment ^(1, 2)	6,839	4,781
Net difference in carrying value of investment versus net book value of underlying net assets ⁽³⁾	(3,682)	(3,509)
Carrying value of investment in unconsolidated entities	\$ 18,109	13,751

(1)

As of June 30, 2011, the Company has a Class B member interest in The Grove at Valdosta of approximately \$1.1 million. This preferred interest entitles the Company to a 9.0% return on its investment but otherwise does not change the Company's effective 20% ownership interest in this entity.

- (2) As of June 30, 2011, the Company has a Class B member interest in both The Grove at San Angelo and The Grove at Moscow of approximately \$2.8 million and \$3.0 million, respectively. As of December 31, 2010, the Company had a Class B member interest in both The Grove at San Angelo and The Grove at Moscow of approximately \$2.3 million and \$2.5 million, respectively. These preferred interests entitle the Company to a 9.0% return on its investment but otherwise do not change the Company's effective 49.9% ownership interest in these entities or operating properties.
- (3) This amount represents the aggregate difference between our historical cost basis and the basis reflected at the entity (i.e., venture) level, which is typically amortized over the life of the related asset. The basis differential occurs primarily due to the difference between the allocated value to acquired entity interests and the ventures basis in those interests, the capitalization of additional investment in the unconsolidated entities, and the elimination of profit earned by us from services provided to these entities to the extent of our percentage ownership.

Table of Contents**Statements of Operations**

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2011	2010	2011	2010
Revenues	\$ 3,768	2,091	7,509	4,111
Expenses:				
Operating expenses	2,139	1,369	4,121	2,672
Interest expense	1,465	931	2,944	1,893
Depreciation and amortization	1,115	794	2,238	1,589
Total expenses	4,719	3,094	9,303	6,154
Net loss	\$ (951)	(1,003)	(1,794)	(2,043)
Company's and Predecessor's share of net loss	\$ (340)	(114)	(635)	(194)

(1) Amount differs from net loss multiplied by the Company's ownership percentage due to the amortization of the aggregate difference between our historical cost basis and our basis reflected at the entity (i.e., venture) level.

9. Debt

A detail of our mortgage loans, construction loans and lines of credit is presented below (amounts in thousands):

	June 30,	December
	2011	31,
		2010
Fixed-rate mortgage loans	\$ 60,840	60,840
Construction loans	11,724	
Lines of credit	74,500	42,500
	\$ 147,064	103,340

During the six months ended June 30, 2011 and 2010, the following transactions occurred (amounts in thousands):

	Six Months Ended	
	June 30,	
	2011	2010
Balance at beginning of period	\$ 103,340	343,172
Additions:		
Draws on lines of credit	32,000	40
Draws under construction loans	11,724	497
Proceeds from related party loan ⁽¹⁾		2,250
Accretion of interest expense ⁽¹⁾		1,376
Deductions:		
Payments on construction loans		(225)
Payments on related party loan		(47)

Balance at end of period	\$ 147,064	347,063
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(1) Relates to sale of 90% of our interest in Campus Crest at Milledgeville, LLC, and sale of 99% of our interest in HSRE I. See note 7.

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The estimated fair value of our fixed rate mortgage loans at June 30, 2011 and December 31, 2010 was approximately \$74.3 million and approximately \$62.9 million, respectively. Estimated fair values are determined by comparing current borrowing rates and risk spreads to the stated interest rates and risk spreads. The estimated fair value of our revolving line of credit approximates the outstanding balance due to the frequent market based repricing of the underlying variable rate index.

Mortgage and construction loans are collateralized by properties and their related revenue streams. Mortgage and construction loans at June 30, 2011 and December 31, 2010 consisted of the following (dollar amounts in thousands):

	Face Amount	Principal Outstanding at June 30, 2011	Principal Outstanding December 31, 2010	Stated Interest Rate	Interest Rate At June 30, 2011	Interest Rate at December 31, 2010	Maturity Date	Amortization
Mortgage loans								
The Grove at Asheville	\$ 14,800	14,800	14,800	5.77%	5.77%	5.77%	4/11/17	30 years
The Grove at Carrollton	14,650	14,650	14,650	6.13%	6.13%	6.13%	10/11/16	30 years
The Grove at Las Cruces	15,140	15,140	15,140	6.13%	6.13%	6.13%	10/11/16	30 years
The Grove at Milledgeville	16,250	16,250	16,250	6.12%	6.12%	6.12%	10/1/16	30 years
Construction loans								
Construction loan (three properties) ⁽¹⁾	52,751	7,332		LIBOR + 4.75%	4.94%	N/A	11/19/13	Interest only through 11/2012
The Grove at Columbia	17,046	4,392		Greater of LIBOR + 3.00% or 4.50%	4.50%	N/A	3/4/14	Interest only through 4/2013
The Grove at Orono	15,206			LIBOR + 2.75%	N/A	N/A	6/30/14	Interest only
Total	\$ 145,843	72,564	60,840					

(1) Secured by The Grove at Ames, The Grove Clarksville and The Grove at Fort Wayne. At June 30, 2011, approximately \$3.1 million of the loan balance was hedged with a floating to fixed interest rate swap, which when taken together with the loan interest, fixed this portion of the loan's interest rate at 6.14%.

Mortgage Loans

The loans for The Grove at Asheville, The Grove at Carrollton, The Grove at Las Cruces and The Grove at Milledgeville generally require interest only payments, plus certain reserves and escrows, that are payable monthly for a period of five years. Monthly payments of principal and interest, plus certain reserve and escrow amounts, are due thereafter until maturity when all principal is due. Each of these loans has a 30-year amortization and is a non-recourse obligation subject to customary exceptions. None of these loans are cross-defaulted or cross-collateralized with any other indebtedness. The loans generally may not be prepaid prior to maturity; in certain cases, prepayment is allowed, subject to prepayment penalties.

During the three and six months ended June 30, 2010, the Predecessor was party to an additional mortgage loan which was outstanding. This loan had a principal amount of approximately \$104.0 million, was secured by six properties, had a fixed interest rate of 6.40% and had interest only payments with a balloon maturity date of February 28, 2013. This mortgage loan was repaid in full on October 19, 2010, upon completion of the Offering.

Table of Contents***Construction Loans***

On July 22, 2011, Campus Crest at Auburn, LLC, a subsidiary of the Company, entered into a Construction Loan Agreement with Compass Bank pursuant to which Compass Bank agreed to provide Campus Crest at Auburn, LLC a construction loan with a total borrowing capacity of approximately \$16.3 million. The construction loan will be used to finance the development of a student housing property in Auburn, Alabama. The construction loan matures on July 22, 2014, but can be extended until October 22, 2015, subject to certain conditions. The interest rate on the construction loan is LIBOR plus 2.95%. The construction loan agreement contains representations, warranties, covenants (including financial covenants upon commencement of operations) and other terms that are customary for construction financing.

On June 30, 2011, Campus Crest at Orono, LLC, a subsidiary of the Company, entered into a Construction Loan Agreement with TD Bank, N.A. pursuant to which TD Bank agreed to provide Campus Crest at Orono, LLC a construction loan with a total borrowing capacity of approximately \$15.2 million. The construction loan will be used to finance the development of a student housing property in Orono, Maine. The construction loan matures on June 30, 2014, but can be extended until December 31, 2015, subject to certain conditions. The interest rate on the construction loan is LIBOR plus 2.75%. The construction loan agreement contains representations, warranties, covenants (including financial covenants upon commencement of operations) and other terms that are customary for construction financing. At June 30, 2011, no amounts were outstanding under this loan.

On March 4, 2011, Campus Crest at Columbia, LLC, a subsidiary of the Company, entered into a Construction Loan Agreement with BOKF, NA (d/b/a Bank of Oklahoma), pursuant to which Bank of Oklahoma agreed to provide Campus Crest at Columbia, LLC a construction loan with a total borrowing capacity of approximately \$17.0 million. The construction loan will be used to finance the development of a student housing property in Columbia, Missouri. The construction loan matures on March 4, 2014, but can be extended until March 4, 2015, subject to certain conditions. The interest rate on the construction loan is the greater of (i) LIBOR plus 3.0%, or (ii) 4.5%. Loan payments are interest only through April 2013. The construction loan agreement contains representations, warranties, covenants (including financial covenants upon commencement of operations) and other terms that are customary for construction financing. At June 30, 2011, approximately \$4.4 million was outstanding under this loan.

On November 19, 2010, the Company entered into a construction loan with The PrivateBank and Trust Company of approximately \$52.8 million. The construction loan will be used to finance the development of student housing properties in each of Ames, Iowa, Clarksville, Tennessee, Fort Collins, Colorado and Fort Wayne, Indiana. The construction loan initially matures on November 19, 2013, but can be extended until November 19, 2014, subject to certain conditions. The interest rate is LIBOR plus 4.75% and the construction loan agreement contains representations, warranties, covenants (including financial covenants upon commencement of operations) and other terms that are customary for construction financing. Loan payments are interest only through November 2012. At June 30, 2011 and December 31, 2010, approximately \$7.3 million and \$0 were outstanding under this loan, respectively.

During the three and six months ended June 30, 2010, the Predecessor was a party to two construction loans which were outstanding. The first construction loan had an outstanding principal amount of approximately \$148.9 million, was secured by nine properties, had an interest rate of interest LIBOR plus 1.80% (when taken together with an interest rate swap, fixed the loan's rate at 6.0%) and had interest only payments with a balloon maturity date of October 31, 2010. The second construction loan had an outstanding principal amount of approximately \$15.8 million, was secured by one property, had an interest rate equal to the greater of LIBOR plus 3.0% or 5.5% and had a maturity date of October 31, 2010. Both construction loans were repaid in full on October 19, 2010 upon completion of the Offering.

Lines of Credit

On October 19, 2010, the Company closed a credit agreement (our revolving credit facility) with Citibank, N.A. and certain other parties thereto relating to a three-year, \$125 million senior secured revolving credit facility. This facility is secured by 12 of our wholly owned properties. As of June 30, 2011 and December 31, 2010, approximately \$74.5 million and \$42.5 million was outstanding under our revolving credit facility, respectively. At June 30, 2011, the Company had approximately \$14.4 million of borrowing capacity under this facility. Borrowings under our

revolving credit facility were used to repay indebtedness which existed prior to the Offering or were used

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to finance our required equity contribution for projects expected to be built and open for the 2011-2012 academic year or future academic years.

The amount available for us to borrow under this credit facility is based on a percentage of the appraisal value of our properties that form the borrowing base of the facility. We intend to pursue alternative, longer-term financing for some or all of the properties, which, prior to the completion of the Offering, secured our \$104.0 million mortgage loan since they were released from the lien of that mortgage upon its repayment in full in connection with the Offering. For eligible properties, this may include debt financing provided by Freddie Mac or Fannie Mae.

Our revolving credit facility has an accordion feature that allows us to request an increase in the total commitments of an additional \$75 million up to a total commitment of \$200 million. Amounts outstanding under our revolving 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 revolving credit facility) plus a spread. The spread depends upon our leverage ratio and ranges from 2.75% to 3.50% for Eurodollar Rate based borrowings and from 1.75% to 2.50% for Base Rate based borrowings. At June 30, 2011, the effective interest rate on the revolving credit facility was 2.95%.

Our ability to borrow under our revolving credit facility is subject to our ongoing compliance with a number of customary financial covenants, including:

a maximum leverage ratio of 0.60 : 1.00;

a minimum fixed charge coverage ratio of 1.50 : 1.00;

a minimum ratio of fixed rate debt and debt subject to hedge agreements to total debt of 66.67%;

a maximum secured recourse debt ratio of 20%; and

a minimum tangible net worth of the sum of 75% of our tangible net worth plus an amount equal to 75% of the net proceeds of any additional equity issuances.

Under our revolving credit facility, for any three month period ending on or after December 31, 2011, our distributions may not exceed the greater of (i) 90.0% of our Funds From Operations (FFO) or (ii) the amount required for us to qualify and maintain our status as a REIT. For the three month period ending September 30, 2011, our distributions may not exceed the greater of (i) 95.0% of our Funds From Operations (FFO) or (ii) the amount required for us to qualify and maintain our status as a REIT. For any three month period in 2011 ending on or prior to June 30, 2011, our distributions may not exceed the greater of (i) 100.0% of our FFO 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).

We and certain of our subsidiaries guarantee the obligations under our revolving credit facility and we and certain of our subsidiaries have pledged specified assets (including real property), stock and other interests as collateral for our revolving credit facility obligations. At June 30, 2011 and December 31, 2010, we were in compliance with the above financial covenants with respect to our revolving credit facility.

10. Incentive Plans

The Company has adopted the 2010 Equity Incentive Compensation Plan (the Plan). The Plan permits the grant of incentive awards to executive officers, employees, consultants and non-employee directors of the Company. The aggregate number of awards approved under the Plan is 2,500,000. As of June 30, 2011 and December 31, 2010, 1,968,678 shares and 2,002,236 shares, respectively, were available for issuance under the plan.

Restricted Stock Awards

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

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At June 30, 2011, unearned compensation totaled approximately \$1.1 million, and will be recorded as expense over the applicable vesting period of three to five years. During the three and six months ended June 30, 2011, stock

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compensation expense of approximately \$0.1 million and \$0.2 million, respectively, was recognized as general and administrative expense in the accompanying condensed consolidated financial statements related to the vesting of restricted stock.

Restricted OP Units

At June 30, 2011, unearned compensation totaled approximately \$1.4 million, and will be recorded over the applicable vesting period of three years. During the three and six months ended June 30, 2011, approximately \$0.2 million and \$0.3 million, respectively, of compensation cost was recognized in the accompanying condensed consolidated financial statements relating to the vesting of restricted OP units.

A summary of incentive plan activity as of and for the six months ended June 30, 2011 is as follows:

	Number of Restricted OP Units	Number of Restricted Common Shares	Total	Weighted Average Grant Date Fair Value
Nonvested balances at December 31, 2010	150,000	98,882	248,882	\$ 12.50
Granted		18,192	18,192	\$ 10.61
Forfeited		(1,413)	(1,413)	\$ 12.50
Nonvested balances at June 30, 2011	150,000	115,661	265,661	\$ 12.37

11. 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 June 30, 2011 and December 31, 2010, 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.

The following table is a summary of the terms, estimated fair values and classification on the condensed consolidated balance sheets as of June 30, 2011 and December 31, 2010 of the interest rate derivative contracts we were a party to at June 30, 2011 and December 31, 2010 (dollar amounts in thousands):

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Interest Rate					Estimated Fair Value at June 30,	Estimated Fair Value at
Derivative			Fixed	Maturity		December 31,
Instrument	Hedged Item	Notional Amount	Interest Rate	Date	2011	2010
Cap ⁽¹⁾	30-day LIBOR	\$ 44,000	2.50%	January 2011	\$ N/A	
Swap ⁽²⁾	30-day LIBOR	\$ 25,488	3.44%	May 2011	N/A	(337)
Cap ⁽¹⁾	30-day LIBOR	\$ 60,500	2.50%	July 2011		N/A
Cap ⁽¹⁾	30-day LIBOR	\$ 3,126 ⁽³⁾	1.25%	April 2013	29	103
Swap ⁽¹⁾	30-day LIBOR	\$ 3,126 ⁽³⁾	1.39%	April 2013	(261)	(115)
					\$ (232)	(349)

(1) Designated as a cash flow hedge.

(2) Not designated as a hedging instrument.

(3) Notional amount increases to \$18,701 over the life of the derivative contract.

The table below reflects the effect of interest rate derivative instruments on the condensed consolidated and combined statements of operations for the three and six months ended June 30, 2011 and 2010 (amounts in thousands):

	Location of Gain (Loss) Recognized on Statements of Operations	Three Months Ended		Six Months Ended	
		June 30,		June 30,	
Derivatives not Designated as Hedging Instruments		2011	2010	2011	2010
Interest rate swaps (receive float/pay fixed):					
Monthly net settlements cash settled	Change in fair value of interest rate derivatives	\$	(1,359)		(2,715)
Mark to market adjustments non-cash	Change in fair value of interest rate derivatives	141	1,514	337	2,893

Total effect of derivative instruments on the combined statements of operations	\$ 141	155	337	178
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For the three and six months ended June 30, 2011, approximately \$0.2 million was recognized in other comprehensive loss related to the effective portion of the change in fair value of interest rate derivatives designated as cash flow hedges.

12. 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 the 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 as of and for the three and six months ended June 30, 2011 and 2010 (amounts in thousands):

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	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Student Housing Operations:				
Revenues from external customers	\$ 13,557	12,892	27,147	25,589
Operating expenses	11,441	12,110	23,174	23,738
Operating income	2,116	782	3,973	1,851
Nonoperating expenses	(640)	(3,897)	(1,540)	(7,718)
Net income (loss)	1,476	(3,115)	2,433	(5,867)
Net income (loss) attributable to noncontrolling interests	14	(2,273)	24	(4,385)
Net income (loss) attributable to stockholders and owner	\$ 1,462	(842)	2,409	(1,482)
Depreciation and amortization	\$ 5,148	4,592	10,245	9,280
Total segment assets at end of period	\$ 408,661		408,661	
Development, Construction and Management Services:				
Revenues from external customers	\$ 11,333	\$ 15,081	\$ 21,617	\$ 30,864
Intersegment revenues	35,348	2,371	51,915	4,647
Total revenues	46,681	17,452	73,532	35,511
Operating expenses	42,738	15,815	68,078	32,090
Operating income	3,943	1,637	5,454	3,421
Nonoperating expenses	(223)	(10)	(235)	(31)
Net income	3,720	1,627	5,219	3,390
Net income attributable to noncontrolling interests	37		52	
Net income attributable to stockholders and owner	\$ 3,683	1,627	5,167	3,390
Depreciation and amortization	\$ 22	23	46	46
Total segment assets at end of period	\$ 13,140		13,140	
Reconciliations:				
Total segment revenues	\$ 60,238	\$ 30,344	100,679	\$ 61,100
Elimination of intersegment revenues	(35,348)	(2,371)	(51,915)	(4,647)
Total combined revenues	\$ 24,890	\$ 27,973	48,764	\$ 56,453

Segment operating income	\$ 6,059	2,419	9,427	5,272
Interest expense	(1,360)	(6,217)	(2,735)	(10,686)
Change in fair value of interest rate derivatives	141	155	337	178
Net unallocated expenses and eliminations	(5,119)	(1,330)	(7,463)	(2,905)
Equity in loss of unconsolidated entities	(340)	(114)	(635)	(194)
Other income	55	12	154	45
Income tax provision	(77)		(200)	
Net loss	\$ (641)	(5,075)	(1,115)	(8,290)
Total segment assets	\$ 421,801		421,801	
Unallocated corporate assets and eliminations	3,125		3,125	
Total assets	\$ 424,926		424,926	

13. Commitments and Contingencies

Commitments

In the normal course of business, we enter into various development and construction related purchase commitments with parties that provide development and construction related goods and services. In the event we were to terminate development or construction services prior to the completion of projects, we could potentially be committed to satisfy outstanding or uncompleted purchase orders with such parties. At June 30, 2011, management does not anticipate any material deviations from schedule or budget related to development 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 the assets of the Company 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.

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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 the consolidated financial position or consolidated results of operations of the Company. 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, other than routine litigation arising in the ordinary course of business.

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.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

As used herein, references to the Company, we, us and our with respect to the period before consummation of the initial public offering of Campus Crest Communities, Inc. on October 19, 2010, refer to the business of Campus Crest Communities, Inc.'s predecessor entities through which Campus Crest Group, LLC carried out the development, construction, ownership and management of the properties that Campus Crest Communities, Inc. acquired upon completion of our Offering and the Formation Transactions.

Forward-looking Statements

This report contains certain forward-looking statements that are subject to risks and uncertainties. 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, 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/A, as amended, for the year ended December 31, 2010, including those set forth under Risk Factors in Item 1A;

the performance of the student housing industry in general;

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

the operating performance of our properties;

the success of our development and construction activities;

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

the availability of and our ability to attract and retain qualified personnel;

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;

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

the availability of attractive development and/or acquisition opportunities in properties that satisfy our investment criteria, including our ability to identify and consummate successful property developments and property acquisitions;

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 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;

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 (REITs)); 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 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.

Our Company

We are a self-managed, self-administered and vertically-integrated developer, builder, owner and manager of high-quality, purpose-built student housing. We believe that we are one of the largest vertically-integrated developers, builders, owners and managers of high-quality, purpose-built student housing properties in the United States based on beds owned and under management.

We were formed as a Maryland corporation on March 1, 2010 and Campus Crest Communities Operating Partnership, LP (the Operating Partnership), of which we, through our wholly owned subsidiary, Campus Crest Communities GP, LLC, are the sole general partner, was formed as a Delaware limited partnership on March 4, 2010. Through October 18, 2010, we had a single stockholder. We completed the Offering on October 19, 2010. Upon completion of the Offering and our Formation Transactions, we owned a 98.5% limited partnership interest in the Operating Partnership.

As of June 30, 2011, we owned interests in 27 operating student housing properties containing approximately 5,048 apartment units and 13,580 beds. All of our properties are recently built, with an average age of approximately 2.5 years as of June 30, 2011. We wholly own 21 properties, containing approximately 3,920 apartment units and

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10,528 beds, and own six properties, containing approximately 1,128 apartment units and 3,052 beds, through a joint venture with Harrison Street Real Estate (HSRE), in which we own a 49.9% interest. Within the last 12 months, we completed construction of three of these joint venture properties, which commenced operations in August 2010. We expect to complete construction and commence operations at four wholly owned properties and two joint venture properties in August 2011. All of our communities contain modern apartment units with many resort-style amenities.

We derive substantially all of our revenue from student housing rental, student housing services, construction and development services and management services. As of June 30, 2011, the average occupancy for our 27 properties was approximately 90%. The average monthly total revenue (including rental and service revenue) per occupied bed (RevPOB) was approximately \$477 and \$476 for the three and six months ended June 30, 2011, respectively. 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 8,000 to 20,000 students. We believe such markets are underserved and are generally experiencing enrollment growth.

We intend to pay regular quarterly distributions to our common stockholders in amounts that meet or exceed the requirements for our qualification as a REIT. Although we currently anticipate making distributions to our common stockholders in cash to the extent cash is available for such purpose, we may, in the sole discretion of our board of directors, make a distribution of capital or of assets or a taxable distribution of our stock (as part of a distribution in which stockholders may elect to receive stock or, subject to a limit measured as a percentage of the total distribution, cash). On July 13, 2011, we paid a dividend for the second quarter of 2011 of \$0.16 per share of common stock to our stockholders of record as of June 29, 2011.

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 and combined 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 the 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 Offering and Formation Transactions in October 2010, we purchased the remaining interest in one of the properties owned by this real estate venture. 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),

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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

At June 30, 2011, we were party to two joint venture arrangements with 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. We have developed, or are currently developing, nine properties in partnership with HSRE with total aggregate cost of approximately \$176.5 million.

HSRE I. HSRE-Campus Crest I, LLC (HSRE I) indirectly owns 100% interests in the following six properties at June 30, 2011: The Grove at Conway, The Grove at Huntsville, The Grove at Lawrence, The Grove at Moscow, The Grove at San Angelo and The Grove at Statesboro. At June 30, 2011, the Company owned a 49.9% interest in HSRE I and HSRE owned the remaining 50.1%.

In general, the Company is responsible for the day-to-day management of HSRE I's business and affairs, provided that major decisions (including budgeting) must be approved by the Company and HSRE. In addition to distributions to which the Company is entitled as an investor in HSRE I, the Company receives or has in the past received fees for providing services to the properties held by HSRE I pursuant to development and construction agreements and property management agreements. We granted to an entity related to HSRE I a right of first opportunity with respect to certain development or acquisition opportunities identified by us. This right of first opportunity was to terminate at such time as HSRE had funded at least \$40 million of equity to HSRE I and/or certain related ventures. As of December 31, 2010, HSRE had funded approximately \$35 million of the \$40 million right of first opportunity. This right of first opportunity was amended in conjunction with the formation of HSRE-Campus Crest IV, LLC as discussed below. HSRE I will dissolve upon the disposition of substantially all of its assets or the occurrence of certain events specified in the agreement between us and HSRE.

HSRE IV. On January 20, 2011, we entered into another joint venture with HSRE, HSRE-Campus Crest IV, LLC (HSRE IV) to which HSRE will contribute up to \$50 million, that will develop and operate additional purpose-built student housing properties. We own a 20% interest in this venture and affiliates of HSRE own the remaining 80%.

HSRE IV is currently building two new student housing properties with completion targeted for the 2011-2012 academic year. The properties, located in Denton, Texas and Valdosta, Georgia, will contain an aggregate of approximately 1,168 beds and will have an estimated cost of approximately \$46.1 million.

In general, we are responsible for the day-to-day management of HSRE IV's business and affairs, provided that major decisions (including deciding to pursue a particular development opportunity and budgeting) must be approved by us and HSRE. In addition to distributions to which we would be entitled as an investor in HSRE IV, we

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receive fees for providing services to HSRE IV pursuant to development and construction agreements and property management agreements. Generally, we earn development fees equal to approximately 4% of the total cost of each property developed by HSRE IV (excluding the cost of land and financing costs), construction fees equal to approximately 5% of the construction costs of each property developed by HSRE IV and management fees equal to approximately 3% of the gross revenues and 3% of the net operating income of operating properties held by HSRE IV. In addition, we receive a reimbursement of a portion of our overhead relating to each development project at a negotiated rate. Under certain circumstances, we will be responsible for funding the amount by which actual development costs for a project pursued by HSRE IV 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. In connection with HSRE IV, we amended HSRE's right of first opportunity, originally granted with respect to HSRE I. HSRE now has the right to develop 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 \$50 million in HSRE IV or caused HSRE IV to decline three development opportunities in any calendar year. As of August 5, 2011, HSRE had funded approximately \$11.3 million of the \$50 million right of first opportunity. The terms of the HSRE IV venture do not prohibit us from developing a wholly owned student housing property 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 and Cheney, Washington 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. HSRE IV, in which we have a 20% interest, is currently building two student housing properties with completion targeted for the 2011-2012 academic year. We receive fees for providing development and construction services to HSRE IV. Similarly, we will receive management fees for managing properties owned by HSRE IV once they are placed in service. No assurance can be

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given that HSRE IV will be successful in developing student housing properties as currently contemplated or those currently under construction.

Results of Operations

From our formation through October 18, 2010, we did not have material or significant corporate activity, other than the issuance of one share of common stock to the Predecessor's parent entity in connection with our initial capitalization and other activities in preparation for the Offering. Accordingly, we believe that a discussion of our results of operations for the three and six months ended June 30, 2010 would not be meaningful, and we have therefore set forth a discussion comparing the consolidated operating results of our operations for the three and six months ended June 30, 2011, and the Predecessor's historical combined results of operations for the three and six months ended June 30, 2010. The historical results of operations presented below should be reviewed in conjunction with the notes to the condensed consolidated and combined financial statements included elsewhere in this report.

Comparison of the Three Months Ended June 30, 2011 and June 30, 2010

As of June 30, 2011, our property portfolio consisted of 21 consolidated operating properties, containing approximately 3,920 apartment units and 10,528 beds, and six operating properties held in an unconsolidated joint venture, containing approximately 1,128 apartment units and 3,052 beds.

In October 2010, we acquired from HSRE the remaining interest in Campus Crest at San Marcos, LLC, which owns The Grove at San Marcos. Prior to this transaction, The Grove at San Marcos was wholly owned by a real estate venture in which the Company and HSRE are members and we accounted for our ownership interest in The Grove at San Marcos under the equity method of accounting. Subsequent to our acquisition of this interest, we consolidated the results of operations of The Grove at San Marcos.

In March 2010, we sold 99% of our interest in HSRE I, which represented a 9.9% interest in the venture, to HSRE. Upon completion of the Offering, we repurchased this 9.9% interest in HSRE I. As a result, we did not account for this transaction as a sale for financial reporting purposes. Accordingly, our investment in HSRE I, accounted for under the equity method, is reflective of a 10% (i.e., pre-sale) net ownership interest through the completion of the Offering. Upon and subsequent to completion of the Offering and Formation Transactions, we owned 49.9% of HSRE I.

In November 2009, we sold The Grove at Milledgeville to an affiliate of HSRE and we retained an indirect ownership interest of 5%. Since we had the contractual obligation to, and did, repurchase this ownership interest in The Grove at Milledgeville upon completion of the Offering, we did not account for this transaction as a sale for financial reporting purposes. Accordingly, the operations of The Grove at Milledgeville have been combined for the three months ended June 30, 2010.

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The following table presents our results of operations for the three months ended June 30, 2011 and 2010, including the amount and percentage change in these results between the periods:

	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010	Change (\$)	Change (%)
		(unaudited and in thousands)		
Revenues:				
Student housing rental	\$ 13,019	12,308	711	5.8%
Student housing services	538	584	(46)	(7.9)%
Development, construction and management services	11,333	15,081	(3,748)	(24.9)%
Total revenues	24,890	27,973	(3,083)	(11.0)%
Operating expenses:				
Student housing operations	6,356	6,907	(551)	(8.0)%
Development, construction and management services	10,611	14,029	(3,418)	(24.4)%
General and administrative	1,722	1,234	488	39.5%
Ground leases	52	47	5	10.6%
Depreciation and amortization	5,209	4,667	542	11.6%
Total operating expenses	23,950	26,884	(2,934)	(10.9)%
Equity in loss of unconsolidated entities	(340)	(114)	(226)	198.2%
Operating income	600	975	(375)	(38.5)%
Nonoperating income (expense):				
Interest expense	(1,360)	(6,217)	4,857	(78.1)%
Change in fair value of interest rate derivatives	141	155	(14)	(9.0)%
Other income (expense)	55	12	43	358.3%
Total nonoperating expenses	(1,164)	(6,050)	4,886	(80.8)%
Loss before income taxes	(564)	(5,075)	4,511	(88.9)%
Income tax expense	(77)		(77)	N/A
Net loss	(641)	(5,075)	4,434	(87.4)%
Net loss attributable to noncontrolling interest	(3)	(2,913)	2,910	(99.9)%
Net loss attributable to Campus Crest Communities, Inc. and Predecessor	\$ (638)	(2,162)	1,524	(70.5)%

Student Housing Operations

Revenues (which include student housing rental and student housing service revenues) in the student housing operations segment increased by approximately \$0.7 million, while operating expenses decreased by approximately \$0.6 million, for the three months ended June 30, 2011 as compared to 2010. The increase in revenues was primarily

due to the inclusion of operating results from The Grove at San Marcos, which subsequent to the Offering became a consolidated property. RevPOB for consolidated properties remained flat at \$482 for the three months ended June 30, 2011 and 2010. Operating expenses decreased due to reductions in marketing and repairs and maintenance expenses, offset by an increase due to the consolidation of the operating results of The Grove at San Marcos in the three month period ended June 30, 2011.

New Property Operations. In October 2010, we acquired from HSRE the remaining interest in The Grove at San Marcos. Prior to the acquisition of this interest, the Company accounted for its ownership interest in this property under the equity method. Subsequent to our acquisition of this interest, we consolidated the results of operations of The Grove at San Marcos. The Grove at San Marcos contributed approximately \$0.8 million of revenues and approximately \$0.4 million of operating expenses for the three months ended June 30, 2011. For the three months ended June 30, 2010, our share of the contribution from The Grove at San Marcos was included as equity in loss from unconsolidated entities. In August 2010, we opened three new properties that were developed by us, each of which is owned by an unconsolidated joint venture. The three properties that opened in 2010 are discussed below under the heading Equity in Loss of Unconsolidated Entities.

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Same-Store Property Operations. We had 20 properties that were operating for both the three months ended June 30, 2011 and 2010. These properties contributed approximately \$12.7 million of revenues and approximately \$6.0 million of operating expenses for the three months ended June 30, 2011 as compared to approximately \$12.9 million of revenues and approximately \$6.9 million of operating expenses for the three months ended June 30, 2010. Average occupancy at our same-store properties slightly decreased to approximately 88% for the three months ended June 30, 2011 as compared to approximately 89% for the three months ended June 30, 2010 and RevPOB decreased to approximately \$478 for the three months ended June 30, 2011 as compared to approximately \$482 for the three months ended June 30, 2010 as a result of lower student housing services revenue.

Development, Construction and Management Services

Revenues and operating expenses in the development, construction and management services segment decreased by approximately \$3.7 million and approximately \$3.4 million, respectively, for the three months ended June 30, 2011 as compared to the three months ended June 30, 2010. Our development, construction and management services segment recognizes revenues 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. The decreases in development, construction and management services revenues and operating expenses were primarily due to a decrease in the number of unconsolidated joint venture properties under construction, which totaled three for the three months ended June 30, 2010 as compared to two unconsolidated joint venture properties for the three months ended June 30, 2011. Additionally, a larger ownership percentage in these unconsolidated joint venture properties resulted in the elimination of a greater percentage of revenues and operating expenses upon consolidation.

Our ability to generate revenues and expenses related to future development and construction projects will depend upon our ability to enter into and provide services to existing ventures or new joint ventures, as well as our proportionate ownership of any such joint ventures. We commenced building four student housing properties for our own account for the 2011-2012 academic year, which are included in our consolidated financial statements and do not generate development, construction and management services revenues and operating expenses for us on a consolidated basis. We expect to complete construction of these four student housing properties and commence operations in August 2011.

General and Administrative

General and administrative expenses increased from approximately \$1.2 million for the three months ended June 30, 2010 to approximately \$1.7 million for the three months ended June 30, 2011. This increase was due to an increase in non-cash employee compensation expense related to share based incentive compensation, as well as increases in professional fees related to legal and accounting services.

Depreciation and Amortization

Depreciation and amortization expense increased from approximately \$4.7 million for the three months ended June 30, 2010 to approximately \$5.2 million for the three months ended June 30, 2011. This increase was primarily due to the consolidation of the operating results of The Grove at San Marcos during the three month period ended June 30, 2011.

Equity in Loss of Unconsolidated Entities

Equity in loss of unconsolidated entities, which represents our share of the net loss from unconsolidated entities in which we have a noncontrolling interest, increased from a loss of \$0.1 million for the three months ended June 30, 2010 to a loss of \$0.3 million for the three months ended June 30, 2011. This increase was due to an increase in our ownership interest in HSRE I from 10% for the three months ended June 30, 2010 as compared to 49.9% for the three months ended June 30, 2011, as well as the opening of three new student housing properties in the HSRE I venture in the fall of 2010. Due to depreciation expense, each of these new properties generated a net loss which we participated in at our ownership percentage.

Table of Contents***Nonoperating Income (Expenses)***

Interest Expense. Interest expense decreased from approximately \$6.2 million for the three months ended June 30, 2010 to approximately \$1.4 million for the three months ended June 30, 2011. This decrease was primarily due to lower outstanding indebtedness during the three months ended June 30, 2011 as compared to June 30, 2010 due to the change in the Company's capital structure as a result of the Offering and Formation Transactions. Additionally, outstanding indebtedness for the three months ended June 30, 2011 had a lower effective borrowing rate than outstanding indebtedness for the three months ended June 30, 2010.

Change in Fair Value of Interest Rate Derivatives. Change in fair value of interest rate derivatives decreased from a gain of approximately \$0.2 million for the three months ended June 30, 2010 to a gain of approximately \$0.1 million for the three months ended June 30, 2011. This change was due to a decrease of approximately \$1.3 million related to cash settlements on interest rate swaps, offset by a decrease in non-cash mark to market adjustments on interest rate swaps of approximately \$1.4 million.

Other Income (Expense). Other income increased from approximately \$0 for the three months ended June 30, 2010 to approximately \$0.1 million for the three months ended June 30, 2011. This change was due to an increase in preferred interest income from unconsolidated entities.

Income Tax Expense

Provision for income taxes increased from \$0 for the three months ended June 30, 2010 to approximately \$0.1 million for the three months ended June 30, 2011. This increase was due to federal and state income tax related to our taxable REIT subsidiaries. Prior to October 2010, no provision for income tax was recorded as all income and losses of the Predecessor were allocated to partners or members of Predecessor owned entities.

Comparison of the Six Months Ended June 30, 2011 and June 30, 2010

As of June 30, 2011, our property portfolio consisted of 21 consolidated operating properties, containing approximately 3,920 apartment units and 10,528 beds, and six operating properties held in an unconsolidated joint venture, containing approximately 1,128 apartment units and 3,052 beds.

In October 2010, we acquired from HSRE the remaining interest in Campus Crest at San Marcos, LLC, which owns The Grove at San Marcos. Prior to this transaction, The Grove at San Marcos was wholly owned by a real estate venture in which the Company and HSRE are members and we accounted for our ownership interest in The Grove at San Marcos under the equity method of accounting. Subsequent to our acquisition of this interest, we consolidated the results of operations of The Grove at San Marcos.

In March 2010, we sold 99% of our interest in HSRE I, which represented a 9.9% interest in the venture, to HSRE. Upon completion of the Offering, we repurchased this 9.9% interest in HSRE I. As a result, we did not account for this transaction as a sale for financial reporting purposes. Accordingly, our investment in HSRE I, accounted for under the equity method, is reflective of a 10% (i.e., pre-sale) net ownership interest through the completion of the Offering. Upon and subsequent to completion of the Offering and Formation Transactions, we owned 49.9% of HSRE I.

In November 2009, we sold The Grove at Milledgeville to an affiliate of HSRE and we retained an indirect ownership interest of 5%. Since we had the contractual obligation to, and did, repurchase this ownership interest in The Grove at Milledgeville upon completion of the Offering, we did not account for this transaction as a sale for financial reporting purposes. Accordingly, the operations of The Grove at Milledgeville have been combined for the six months ended June 30, 2010.

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The following table presents our results of operations for the six months ended June 30, 2011 and 2010, including the amount and percentage change in these results between the periods:

	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010	Change (\$)	Change (%)
		(unaudited and in thousands)		
Revenues:				
Student housing rental	\$ 26,171	24,443	1,728	7.1%
Student housing services	976	1,146	(170)	(14.8)%
Development, construction and management services	21,617	30,864	(9,247)	(30.0)%
Total revenues	48,764	56,453	(7,689)	(13.6)%
Operating expenses:				
Student housing operations	12,824	13,301	(477)	(3.6)%
Development, construction and management services	19,836	28,644	(8,808)	(30.7)%
General and administrative	3,670	2,618	1,052	40.2%
Ground leases	104	94	10	10.6%
Depreciation and amortization	10,366	9,429	937	9.9%
Total operating expenses	46,800	54,086	(7,286)	(13.5)%
Equity in loss of unconsolidated entities	(635)	(194)	(441)	227.3%
Operating income	1,329	2,173	(844)	(38.8)%
Nonoperating income (expense):				
Interest expense	(2,735)	(10,686)	7,951	(74.4)%
Change in fair value of interest rate derivatives	337	178	159	89.3%
Other income (expense)	154	45	109	242.2%
Total nonoperating expenses	(2,244)	(10,463)	8,219	(78.6)%
Loss before income taxes	(915)	(8,290)	7,375	(89.0)%
Income tax expense	(200)		(200)	N/A
Net loss	(1,115)	(8,290)	7,175	(86.6)%
Net loss attributable to noncontrolling interest	(5)	(5,025)	5,020	(99.9)%
Net loss attributable to Campus Crest Communities, Inc. and Predecessor	\$ (1,110)	(3,265)	2,155	(66.0)%

Student Housing Operations

Revenues (which include student housing rental and student housing service revenues) in the student housing operations segment increased by approximately \$1.6 million, while operating expenses decreased by approximately \$0.5 million, for the six months ended June 30, 2011 as compared to 2010. The increase in revenues was primarily

due to the inclusion of operating results from The Grove at San Marcos, which subsequent to the Offering became a consolidated property. RevPOB for consolidated properties increased to \$483 for the six months ended June 30, 2011 as compared to \$482 for the six months ended June 30, 2010. Operating expenses decreased due to reductions in marketing, repairs and maintenance and property-related professional fees, offset by an increase due to the consolidation of the operating results of The Grove at San Marcos in the six month period ended June 30, 2011.

New Property Operations. In October 2010, we acquired from HSRE the remaining interest in The Grove at San Marcos. Prior to the acquisition of this interest, the Company accounted for its ownership interest in this property under the equity method. Subsequent to our acquisition of this interest, we consolidated the results of operations of The Grove at San Marcos. The Grove at San Marcos contributed approximately \$1.7 million of revenues and approximately \$0.7 million of operating expenses for the six months ended June 30, 2011. For the six months ended June 30, 2010, our share of the contribution from The Grove at San Marcos was included as equity in loss from unconsolidated entities. In August 2010, we opened three new properties that were developed by us, each of which is owned by an unconsolidated joint venture. The three properties that opened in 2010 are discussed below under the heading Equity in Loss of Unconsolidated Entities.

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Same-Store Property Operations. We had 20 properties that were operating for both the six months ended June 30, 2011 and 2010. These properties contributed approximately \$25.4 million of revenues and approximately \$12.1 million of operating expenses for the six months ended June 30, 2011 as compared to approximately \$25.6 million of revenues and approximately \$13.3 million of operating expenses for the six months ended June 30, 2010. Average occupancy at our same-store properties remained flat at approximately 88% for the six months ended June 30, 2011 and 2010. RevPOB decreased to approximately \$478 for the six months ended June 30, 2011 as compared to approximately \$482 for the six months ended June 30, 2010 as a result of lower student housing services revenue.

Development, Construction and Management Services

Revenues and operating expenses in the development, construction and management services segment decreased by approximately \$9.2 million and approximately \$8.8 million, respectively, for the six months ended June 30, 2011 as compared to the six months ended June 30, 2010. Our development, construction and management services segment recognizes revenues 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. The decreases in development, construction and management services revenues and operating expenses were primarily due to a decrease in the number of unconsolidated joint venture properties under construction, which totaled three for the six months ended June 30, 2010 as compared to two unconsolidated joint venture properties for the six months ended June 30, 2011. Additionally, a larger ownership percentage in these unconsolidated joint venture properties resulted in the elimination of a greater percentage of revenues and operating expenses upon consolidation.

Our ability to generate revenues and expenses related to future development and construction projects will depend upon our ability to enter into and provide services to existing ventures or new joint ventures, as well as our proportionate ownership of any such joint ventures. We commenced building four student housing properties for our own account for the 2011-2012 academic year, which are included in our consolidated financial statements and do not generate development, construction and management services revenues and operating expenses for us on a consolidated basis. We expect to complete construction of these four student housing properties and commence operations in August 2011.

General and Administrative

General and administrative expenses increased from approximately \$2.6 million for the six months ended June 30, 2010 to approximately \$3.7 million for the six months ended June 30, 2011. This increase was due to an increase in non-cash employee compensation expense related to share based incentive compensation, as well as increases in professional fees related to legal and accounting services.

Depreciation and Amortization

Depreciation and amortization expense increased from approximately \$9.4 million for the six months ended June 30, 2010 to approximately \$10.4 million for the six months ended June 30, 2011. This increase was primarily due to the consolidation of the operating results of The Grove at San Marcos during the six month period ended June 30, 2011.

Equity in Loss of Unconsolidated Entities

Equity in loss of unconsolidated entities, which represents our share of the net loss from unconsolidated entities in which we have a noncontrolling interest, increased from a loss of \$0.2 million for the six months ended June 30, 2010 to a loss of \$0.6 million for the six months ended June 30, 2011. This increase was due to an increase in our ownership interest in HSRE I from 10% for the six months ended June 30, 2010 as compared to 49.9% for the six months ended June 30, 2011, as well as the opening of three new student housing properties in the HSRE I venture in the fall of 2010. Due to depreciation expense, each of these new properties generated a net loss which we participated in at our ownership percentage.

Table of Contents***Nonoperating Income (Expenses)***

Interest Expense. Interest expense decreased from approximately \$10.7 million for the six months ended June 30, 2010 to approximately \$2.7 million for the six months ended June 30, 2011. This decrease was primarily due to lower outstanding indebtedness during the six months ended June 30, 2011 as compared to June 30, 2010 due to the change in the Company's capital structure as a result of the Offering and Formation Transactions. Additionally, outstanding indebtedness for the six months ended June 30, 2011 had a lower effective borrowing rate than outstanding indebtedness for the six months ended June 30, 2010.

Change in Fair Value of Interest Rate Derivatives. Change in fair value of interest rate derivatives increased from a gain of approximately \$0.2 million for the six months ended June 30, 2010 to a gain of approximately \$0.3 million for the six months ended June 30, 2011. This change was due to a decrease of approximately \$2.7 million related to cash settlements on interest rate swaps, offset by a decrease in non-cash mark to market adjustments on interest rate swaps of approximately \$2.6 million.

Other Income (Expense). Other income increased from approximately \$0 for the six months ended June 30, 2010 to approximately \$0.2 million for the six months ended June 30, 2011. This change was due to an increase in preferred interest income from unconsolidated entities.

Income Tax Expense

Provision for income taxes increased from \$0 for the six months ended June 30, 2010 to approximately \$0.2 million for the six months ended June 30, 2011. This increase was due to federal and state income tax related to our taxable REIT subsidiaries. Prior to October 2010, no provision for income tax was recorded as all income and losses of the Predecessor were allocated to partners or members of Predecessor owned entities.

Cash Flows***Comparison of Six Months Ended June 30, 2011 and June 30, 2010******Operating Activities***

Net cash provided by operating activities was approximately \$11.4 million for the six months ended June 30, 2011 as compared to approximately \$2.7 million for the six months ended June 30, 2010, an increase of approximately \$8.7 million. Working capital accounts provided approximately \$0.6 million for the six months ended June 30, 2011 while approximately \$2.3 million was provided by working capital accounts for the six months ended June 30, 2010, representing a decrease in cash provided of approximately \$1.7 million. This change was driven by the timing of third-party construction billings and cash collections during the six months ended June 30, 2011.

Investing Activities

Net cash used in investing activities totaled approximately \$39.1 million for the six months ended June 30, 2011 as compared to approximately \$2.7 million for the six months ended June 30, 2010, an increase of approximately \$36.4 million. This increase was due to significantly increased development and construction activity related to consolidated properties in the six month period ended June 30, 2011 as compared to the six month period ended June 30, 2010, offset by cash received from HSRE related to the contribution of ownership interests in The Grove at Denton and The Grove at Valdosta to HSRE IV.

Financing Activities

Net cash provided by financing activities totaled approximately \$34.1 million for the six months ended June 30, 2011 as compared to approximately \$0.1 million for the six months ended June 30, 2010, an increase of approximately \$34.0 million. This increase was due to draws on our revolving credit facility and secured, project-specific construction loans to fund increased development and construction activity for wholly owned student housing properties and to fund investments in HSRE IV, partially offset by distributions paid to stockholders and noncontrolling interests.

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Liquidity and Capital Resources

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 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 assure you 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

On October 19, 2010, we closed a credit agreement (our revolving credit facility) with Citibank, N.A. and certain other parties thereto relating to a three-year, \$125 million senior secured revolving credit facility. This facility is secured by 12 of our wholly owned properties. Affiliates of Citigroup Global Markets Inc. act as administrative agent, collateral agent, lead arranger and book running manager, and affiliates of Raymond James & Associates, Inc., Citigroup Global Markets Inc., Goldman, Sachs & Co., Barclays Capital Inc. and RBC Capital Markets Corporation (together with other financial institutions) act as lenders under our revolving credit facility. As of June 30, 2011, approximately \$74.5 million was outstanding under our revolving credit facility and approximately \$14.4 million of borrowing capacity was available under this facility.

The amount available for us to borrow under this credit facility is based on a percentage of the appraisal value of our properties that form the borrowing base of the facility. We intend to pursue alternative, longer-term financing for some or all of the properties, which, prior to the completion of the Offering, secured our \$104.0 million mortgage loan with Silverton Bank since they were released from the lien of that mortgage upon its repayment in full in connection with our Offering and Formation Transactions. For eligible properties, this may include debt financing provided by Freddie Mac or Fannie Mae.

Additionally, our revolving credit facility has an accordion feature that allows us to request an increase in the total commitments of up to \$75 million to \$200 million. Amounts outstanding under our revolving credit facility bear interest at a floating rate equal to, at our election, the Eurodollar Rate or the Base Rate (each as defined in our revolving credit facility) plus a spread. The spread depends upon our leverage ratio and ranges from 2.75% to 3.50% for Eurodollar Rate based borrowings and from 1.75% to 2.50% for Base Rate based borrowings.

Our ability to borrow under our revolving credit facility is subject to our ongoing compliance with a number of customary financial covenants, including:

a maximum leverage ratio of 0.60 : 1.00;

a minimum fixed charge coverage ratio of 1.50 : 1.00;

a minimum ratio of fixed rate debt and debt subject to hedge agreements to total debt of 66.67%;

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a maximum secured recourse debt ratio of 20%; and

a minimum tangible net worth of the sum of 75% of our tangible net worth plus an amount equal to 75% of the net proceeds of any additional equity issuances.

Under our revolving credit facility, for any three month period ending on or after December 31, 2011, our distributions may not exceed the greater of (i) 90.0% of our Funds From Operations (FFO) or (ii) the amount required for us to qualify and maintain our status as a REIT. For the three month period ending September 30, 2011, our distributions may not exceed the greater of (i) 95.0% of our Funds From Operations (FFO) or (ii) the amount required for us to qualify and maintain our status as a REIT. For any three month period in 2011 ending on or prior to June 30, 2011, our distributions may not exceed the greater of (i) 100.0% of our FFO 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).

We and certain of our subsidiaries will guarantee the obligations under our revolving credit facility and we and certain of our subsidiaries have pledged specified assets (including real property), stock and other interests as collateral for our revolving credit facility obligations.

The foregoing is only a summary of the material terms of our revolving credit facility. For more information, see the credit agreement, which is filed as Exhibit 10.22 to our Annual Report on Form 10-K for the year ended December 31, 2010.

On July 22, 2011, Campus Crest at Auburn, LLC, a subsidiary of the Company, entered into a Construction Loan Agreement with Compass Bank pursuant to which Compass Bank agreed to provide Campus Crest at Auburn, LLC a construction loan with a total borrowing capacity of approximately \$16.3 million. The construction loan will be used to finance the development of a student housing property in Auburn, Alabama. The construction loan matures on July 22, 2014, but can be extended until October 22, 2015, subject to certain conditions. The interest rate on the construction loan is LIBOR plus 2.95%. The construction loan agreement contains representations, warranties, covenants (including financial covenants upon commencement of operations) and other terms that are customary for construction financing.

On June 30, 2011, Campus Crest at Orono, LLC, a subsidiary of the Company, entered into a Construction Loan Agreement with TD Bank, N.A. pursuant to which TD Bank agreed to provide Campus Crest at Orono, LLC a construction loan with a total borrowing capacity of approximately \$15.2 million. The construction loan will be used to finance the development of a student housing property in Orono, Maine. The construction loan matures on June 30, 2014, but can be extended until December 31, 2015, subject to certain conditions. The interest rate on the construction loan is LIBOR plus 2.75%. The construction loan agreement contains representations, warranties, covenants (including financial covenants upon commencement of operations) and other terms that are customary for construction financing. At June 30, 2011, no amounts were outstanding under this loan.

On March 4, 2011, Campus Crest at Columbia, LLC, a subsidiary of the Company, entered into a Construction Loan Agreement with BOKF, NA (d/b/a Bank of Oklahoma), pursuant to which Bank of Oklahoma agreed to provide Campus Crest at Columbia, LLC a construction loan with a total borrowing capacity of approximately \$17.0 million. The construction loan will be used to finance the development of a student housing property in Columbia, Missouri. The construction loan matures on March 4, 2014, but can be extended until March 4, 2015, subject to certain conditions. The interest rate on the construction loan is the greater of (i) LIBOR plus 3.0%, or (ii) 4.5%. Loan payments are interest only through April 2013. The construction loan agreement contains representations, warranties, covenants (including financial covenants upon commencement of operations) and other terms that are customary for construction financing. At June 30, 2011, approximately \$4.4 million was outstanding under this loan.

On November 19, 2010, the Company entered into a construction loan with The PrivateBank and Trust Company of approximately \$52.8 million. The construction loan will be used to finance the development of student housing properties in each of Ames, Iowa, Clarksville, Tennessee, Fort Collins, Colorado and Fort Wayne, Indiana. The construction loan initially matures on November 19, 2013, but can be extended until November 19, 2014,

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subject to certain conditions. The interest rate is LIBOR plus 4.75% and the construction loan agreement contains representations, warranties, covenants (including financial covenants upon commencement of operations) and other terms that are customary for construction financing. Loan payments are interest only through November 2012. At June 30, 2011 and December 31, 2010, approximately \$7.3 million and \$0, respectively, were outstanding under this loan.

In addition to borrowings under our revolving credit facility, we may also use non-recourse mortgage financing to make acquisitions or refinance short-term borrowings under our revolving credit facility. We may also seek to raise additional capital through the issuance of our common stock, preferred stock, OP units and debt or other securities or through property dispositions or joint venture transactions. Any debt incurred or issued by us may be secured or unsecured, long-term or short-term, fixed or variable interest rate and may be subject to such other terms as we deem prudent. Our ability to access the lending and capital markets will be dependent on a number of factors, including general market conditions for REITs, our historical and anticipated financial condition, liquidity, results of operations, FFO and market perceptions about us and our competitors.

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 our revolving credit facility. We expect that cash flow from operations and borrowings under our revolving credit facility will be sufficient to meet our liquidity requirements for at least the next 12 months.

One of our unconsolidated entities has approximately \$24.8 million of construction debt that matures on November 15, 2011. We expect that the unconsolidated entity will close on a mortgage loan, or acquire other, longer-term financing, prior to the loan's maturity date or execute a modification to the terms of the construction loan which will extend the loan's maturity date. As discussed in note 8 to the accompanying condensed consolidated and combined financial statements contained in Part I herein, the Company is the guarantor of this construction loan.

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, four of which are wholly owned by us and two of which are owned by a joint venture with HSRE in which we own a 20% interest. We expect to complete construction and commence operations at each of these properties in August 2011, for the 2011-2012 academic year. For each of these projects, we commenced construction subsequent to significant pre-development activities. We estimate that the cost to complete all four wholly owned properties will be approximately \$87.5 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 two joint venture properties will be approximately \$46.1 million and our pro rata share will be approximately \$3.9 million. No assurance can be given that we will complete construction of these properties in accordance with our current expectations (including the estimated cost thereof). We have financed the construction of these six properties through borrowings under our revolving credit facility, project-specific construction indebtedness (including the project-specific indebtedness described in note 9 to the condensed consolidated and combined financial statements) and contributions from HSRE.

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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 five to seven 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 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 our revolving 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 June 30, 2011 (including future interest payments) (in thousands):

Contractual Obligations	Total	2011	2012-2013	2014-2015	Thereafter
Long-term debt obligations ⁽¹⁾	\$ 147,064	82	83,191	6,003	57,788
Interest payments on outstanding debt obligations	23,519	3,265	9,690	7,219	3,345
Operating lease obligations	22,767	328	1,549	1,253	19,637
Purchase obligations ⁽²⁾	26,406	26,406			
Other long-term liabilities	261		261		
Total	\$ 220,017	30,081	94,691	14,475	80,770

(1) Obligations do not include debt maturities related to unconsolidated entities. Unconsolidated entities have long-term debt obligations of approximately \$102.7 million, which mature at various dates through 2013. The Company is the guarantor of these loans.

(2) Obligations relate to subcontracts executed by Campus Crest Construction, LLC, to complete projects under construction at June 30, 2011.

Off-Balance Sheet Arrangements**HSRE Joint Venture**

We use joint venture arrangements to finance certain of our properties. As discussed above, at June 30, 2011, we were party to two joint venture arrangements with HSRE. The first venture, in which we own a 49.9% interest and account for under the equity method, owns 100% interests in six operating properties. The second venture, in which we own a 20% interest and account for under the equity method, owns 100% interests in two properties currently under construction, with completion targeted for the 2011-2012 academic year. At June 30, 2011, these ventures had a total of approximately \$102.7 million of outstanding construction debt. As discussed in note 8 to the accompanying condensed consolidated and combined financial statements contained in Part I herein, the Company is the guarantor of

the debt held in these unconsolidated entities.

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

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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.

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 loss as presented in the condensed consolidated and combined 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 loss for the three and six months ended June 30, 2011 and 2010:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2011	2010	2011	2010
Net loss	\$ (641)	(5,075)	(1,115)	(8,290)
Real estate related depreciation and amortization	5,148	4,592	10,245	9,280
Real estate related depreciation and amortization unconsolidated entities	637	100	1,159	157
Funds from operations (FFO)	\$ 5,144	(383)	10,289	1,147

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. Excluding the change in fair value of interest rate derivatives 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 FFOA.

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2011	2010	2011	2010
FFO	\$ 5,144	(383)	10,289	1,147
Elimination of change in fair value of interest rate derivatives	(141)	(1,514)	(337)	(2,893)
Funds from operations adjusted (FFOA)	\$ 5,003	(1,897)	9,952	(1,746)

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

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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 June 30, 2011, approximately \$86.2 million of our aggregate indebtedness (approximately 59% 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 \$0.9 million annually. This assumes that the amount outstanding under our variable rate debt remains at \$86.2 million, the balance as of June 30, 2011.

We may in the future use derivative financial instruments to manage, or hedge, interest rate risk related to variable rate borrowings outstanding under our revolving credit facility. 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.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

We are not presently involved in any material litigation nor, to our knowledge, is any material litigation threatened against us or our properties. We are involved in routine litigation arising in the ordinary course of business, none of which we believe to be material.

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, as amended, for the year ended December 31, 2010. 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, 2010.

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

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. [Removed and Reserved]

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit

Number Description of Document

- 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.
- 101 * The following materials from Campus Crest Communities, Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2011 formatted in XBRL (eXtensible Business Reporting Language): (i) the Condensed Consolidated Balance Sheets of Campus Crest Communities, Inc., (ii) the Condensed Consolidated and Combined Statements of Operations of Campus Crest Communities, Inc. and Campus Crest Communities Predecessor, (iii) the Condensed Consolidated Statement of Changes in Equity and Comprehensive Loss of Campus Crest Communities, Inc., (iv) the Condensed Consolidated and Combined Statements of Cash Flows of Campus Crest Communities, Inc. and Campus Crest Communities Predecessor, and (v) related notes to the Condensed Consolidated and Combined Financial Statements of Campus Crest Communities, Inc. and Campus Crest Communities Predecessor, tagged as blocks of text.

* Filed herewith.

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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: August 5, 2011

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)**

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Exhibit Index

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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.

* Filed herewith.