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

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended September 30, 2012

OR

.. **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from__________to

Commission file number: 001-34872

CAMPUS CREST COMMUNITIES, INC.

(Exact name of registrant as specified in its charter)

Maryland	**27-2481988**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
2100 Rexford Road, Suite 414, Charlotte, NC	**28211**
(Address of principal executive offices)	(Zip Code)

(704) 496-2500

(Registrant's telephone number, including area code)

N/A

(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 x 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 x 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 x	Non-accelerated filer ¨ (Do not check if a smaller reporting company)	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 x

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

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

CAMPUS CREST COMMUNITIES, INC.

FORM 10-Q

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CAMPUS CREST COMMUNITIES, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except per share data)

(Unaudited)

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

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

See accompanying notes to condensed consolidated financial statements.

CAMPUS CREST COMMUNITIES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)
(In thousands, except per share data)
(Unaudited)

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

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

See accompanying notes to condensed consolidated financial statements.

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CAMPUS CREST COMMUNITIES, INC.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(In thousands)

(Unaudited)

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

See accompanying notes to condensed consolidated financial statements.

CAMPUS CREST COMMUNITIES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

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

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

See accompanying notes to condensed consolidated financial statements.

CAMPUS CREST COMMUNITIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Organization and Description of Business

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

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

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

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

	Properties in Operation	Properties under Construction	
Consolidated entities	32	3	(1)
Unconsolidated entities	7	2	(2)
Total	39	5	

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

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

2. Summary of Significant Accounting Policies

Basis of Presentation

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

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

Use of Estimates

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

Investment in Real Estate

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

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

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

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

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

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

Property Acquisitions

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

Deferred Financing Costs

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

Noncontrolling Interests

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

Real Estate Ventures

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

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

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

Segments

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

Student Housing Revenue

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

Development, Construction and Management Services

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

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

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

Allowance for Doubtful Accounts

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

Derivative Instruments and Hedging Activities

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

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

Fair Value of Financial Instruments

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

The fair value of the interest rate caps and swaps are determined using widely accepted valuation techniques including discounted cash flow analysis on the expected cash flows of the derivative. This analysis reflects the contractual terms of the derivative, including the period to maturity, and uses observable market-based inputs, including interest rate curves, implied volatilities and counterparty creditworthiness. Fair value guidance for financial assets and liabilities which are recognized and disclosed in the condensed consolidated financial statements on a recurring basis and nonfinancial assets on a nonrecurring basis establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

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

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

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

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

Income Taxes

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

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

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

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

Comprehensive Income (Loss)

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

Stock-Based Compensation

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

Recent Accounting Pronouncements

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

3. Student Housing Properties

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

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

4. Property Acquisitions

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

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

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

5. Investment in Unconsolidated Entities

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

We act as the operating member and day-to-day manager for these joint ventures and as such are entitled to receive fees for providing development and construction services (as applicable) and management services. We recognized revenues of approximately $12.1 million and $43.2 million for the three and nine months ended September 30, 2012, respectively, and revenues of approximately $4.8 million and $26.4 million for the three and nine months ended September 30, 2011, respectively. Such fees are reflected in development, construction and management services in the accompanying condensed consolidated statements of operations and comprehensive income (loss).

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

Unconsolidated Entities	Our Ownership		Number of Properties	Total Investment	Debt Amount Outstanding	Weighted Average Interest Rate [1]		Maturity Date Range
HSRE-Campus Crest I, LLC	49.9	%	3	$ 11,357	$ 34,085	2.72	%	11/09/2012 – 01/09/2013 [2]
HSRE-Campus Crest IV, LLC	20.0	%	1	2,210	16,979	5.75	% [3]	12/1/2013
HSRE-Campus Crest V, LLC	10.0	%	3	3,373				