



EXECUTIVE

# TOP MARKS

American Campus Communities takes its student housing portfolio to the head of the class.



Bill Bayless  
President and CEO  
American Campus Communities



**BIG MAN ON CAMPUS:** Bill Bayless, president and CEO of American Campus Communities, is eager to build its brand now that the company recently closed on its acquisition of GMH Communities Trust.



**“We have an open-door policy and encourage debate, which promotes problem-solving.”**

# Learning Curve

**American Campus Communities applies itself to higher education.**

**T**his month, just as it has every August for the past 15 years, American Campus Communities (ACC) will open its doors to welcome eager young college students ready to settle in for the new school year. But this year, the Austin, Texas-based REIT has a great many more doors to open, thanks to the firm's recently completed acquisition of Newtown Square, Pa.-based GMH Communities Trust.

With the close of the GMH acquisition in June 2008, ACC now owns 88 student housing properties containing roughly 54,300 beds, an increase in bed count of more than 90 percent. The REIT also owns a minority interest in 21 joint-venture properties containing 12,100 beds and third-party manages thousands more beds. All told, ACC's portfolio consists of 145 properties under management with about 92,000 beds in 93 college markets. (The GMH portfolio expanded the REIT's reach into 41 new markets.)

Such heft was believed by many to guarantee the REIT's success in a tough economy. After all, the acquisition cemented ACC's position as the nation's leading student housing company. Today, the firm's total market capitalization is \$2.5 billion. That's nearly seven times the \$373 million market cap of its next largest public competitor, Memphis, Tenn.-based Education Realty Trust.

Chris Carson/WPN

By Jennifer Popovec

Yet, at first, Wall Street wasn't sure the deal would close in light of uncertainty in the capital markets. They were wrong. "ACC has delivered what they promised to the market in terms of growth and execution—their track record has been good, and they've been good managers of both capital and the capital markets by getting the GMH deal done in a difficult capital market," says Jordan Sadler, managing director of real estate equity research for Cleveland, Ohio-based KeyBanc Capital Markets. "But it's going to be a significant challenge to integrate that deal over the next 12 to 18 months."

Indeed, the months ahead will require a significant level of energy and expertise as ACC works to integrate the GMH portfolio into its own. This challenge comes at a time when the REIT is aggressively trying to grow its ACE program—an initiative launched in 2005 that allows the REIT to develop on-campus facilities with its own equity through ground leases with universities. And to top it off, the company will need to continue to manage its own properties and take care of its third-party management and development clients.

Navigating the company through the fray is president and CEO Bill Bayless. "We have three main objectives: We need to successfully integrate the GMH portfolio; we need to drive our ACE program; and we need to continue to manage our balance sheet," Bayless says. "We need to take care of what's on our plate, and GMH and ACE are our top priorities."

### DESTINED FOR DORMS

Thankfully, the company has some experience managing its growing pains. While ACC's size doubled with the GMH acquisition, ACC has experienced a number of expansions since its predecessor company, American Campus Lifestyles Cos. (ACLC), was launched in 1993.

Bayless, who got his start in the student housing industry as a resident assistant at a West Virginia University dorm, founded ACLC after hooking up with student housing investors Joseph Domberger and Wayne Senecal. Their goal? To take over the management contract for the University of Texas' Dobie Center, a large dormitory near the Austin campus that the trio came across in 1993.

While renovating Dobie Center, ACLC



## LEADERSHIP LESSONS: BILL BAYLESS

- ▶ **Title:** President and CEO
- ▶ **Age:** 44
- ▶ **First job:** Laborer at Westvaco Paper Factory
- ▶ **Favorite quote:** "How a man plays the game shows something of his character; how he loses shows all of it." —*Unknown*
- ▶ **Ideal leader:** Ronald Reagan
- ▶ **Greatest challenge as a leader:** Putting people in positions that maximize their strengths and mitigate their weaknesses
- ▶ **Best advice someone ever gave you:** To heck with the bankers, to heck with the analysts—just run your business.
- ▶ **Favorite author:** Jim Connelly
- ▶ **Playing on your iPod right now:** Cross Canadian Ragweed
- ▶ **Hobbies:** Reading and working out

identified other projects and quickly added Langston University in Langston, Okla., and Florida State University as clients. Just two years later, the company, which focused exclusively on third-party management of these student housing properties, expanded its operating platform to include development.

Their first client was Prairie View A&M University in Prairie View, Texas, for which ACLC built the 672-bed University Village.

When the project opened in 1996, it was fully occupied and had a waiting list of more than 400 students. As such, the work began rolling in.

Within a year, ACLC decided to bring on New York City-based Reckson Partners as a majority partner. With Reckson's backing, the firm could ramp up its activities, acquiring existing student housing assets and developing new student housing properties off-campus. Soon after announcing the partnership, in 1997, ACLC changed its name to American Campus Communities, and for the next seven years, the company focused on acquisitions and off-campus development.

From 1997 to early 2004, ACC purchased student housing properties at the University of Central Florida, Arizona State University, and the University of Georgia, and developed properties at Texas A&M University, the University of Colorado, and the University of California, Irvine. Then, in 2004, ACC—frustrated with struggling to access capital as a private company and having to pay through the nose for that capital—went public as the nation's first student housing REIT. Prior to the company's IPO, its weighted cost of capital was in the double-digit range, Bayless says.

With its IPO, ACC introduced Wall Street to the challenges and opportunities of student housing. While most institutional investors considered student housing a niche play, confusing student housing with traditional multifamily, they soon learned that student housing properties are leased by the bed, not by the unit. What's more, leasing, make-ready, and move-in/move-out dates are all determined by the academic calendar, which means these activities occur within very tight time frames.

Since ACC's IPO, the REIT has generated "excellent and steady" growth in funds for operations (FFO) and net operating income (NOI), according to Karin Ford, a REIT analyst with KeyBanc Capital Markets. As of February 2008, ACC had posted a total return of 95.1 percent, according to SNL Financial; Education Realty Trust, on the other hand, recorded a total return of -11.7 percent.

Last year, ACC's total revenue was \$147.1 million, up nearly 24 percent from \$119 million in 2006. Moreover, the REIT increased NOI for same-store owned off-

campus properties by 4.8 percent over 2006; occupancy levels at those properties hovered at 97.9 percent by year-end 2007.

### QUALITY CONTROL

Some of ACC's strong performance can be attributed to the overall growth the student housing sector is enjoying. The college-age population, those age 18 to 24, now numbers 9.5 million, up 20 percent from a decade ago, according to the National Center for Public Policy & Higher Education.

But ACC's management team and operational expertise are the foundation for the company's growth, analysts contend. "ACC is the highest-quality blue-chip operator in the student housing space," says Craig Leupold, president of Green Street Advi-

sors, a San Francisco-based REIT research firm. "They have put together a strong management team that is young and energetic but also experienced. And they have established an outstanding corporate culture and infrastructure."

Leupold says that Bayless, along with the rest of his management team, focuses on communication and a team-oriented approach, seeking input and listening to opinions. "They are very open and not afraid to engage in debate," he explains, adding that ACC solicits thoughts from bankers, shareholders, board members, and clients.

ACC's team-oriented approach has solved many a crisis for the REIT. In 1999, for example, the company bought two properties at the University of Georgia that

were on 365-day leases, which left only two days between the time students moved out and when students moved back in for fall classes. "In order to complete the make-ready for the new academic year, nearly all the corporate staff went to Georgia and worked the turn, painting apartments and doing other duties," Bayless recalls. "Everything was ready at move-in day, due to the employees' hard work."

That approach has trickled down to the project level, especially with clients such as the University of California, Irvine. In 2003, the university set a goal to house 50 percent of its students on campus. ACC was ready, working with the university to develop two on-campus student housing projects with a total of 3,000 beds. By 2005, the Vista del

## SWEET LEASES

American Campus Communities uses high tech to achieve operational excellence.

**C**reated in 2001, American Campus Communities' Leasing Administration & Marketing System (LAMS) has been a blessing for the student housing developer. By providing real-time property data, LAMS arms ACC with critical information necessary to achieve peak performance. For example, LAMS provides the historic data necessary to determine whether a property is leasing up at the same rate that it did in previous years. Even more importantly, LAMS tracks traffic to the property and lease

closing ratios on that traffic.

"LAMS tells us whether we have a traffic issue and therefore need more marketing, or if it's a price issue, where we need to decrease our prices," explains Jennifer Beese, senior vice president of leasing administration for ACC. The system also pulls information from ACC's Web site, determines how many people visit and request information, and automates almost all of the leasing efforts.

All of this gives the management team

a competitive edge. "The industry is still decades behind in the development of standardized operating systems for student housing," says ACC president and CEO Bill Bayless. "That's what makes us different and unique. We've invested the time and resources in developing our own operating system, and the fact that for 14 quarters we have averaged more than 6 percent NOI growth speaks to the strength of our operations. That's eluded most companies in this sector."



**DEALING IN DATA:** American Campus Communities' proprietary Web-based lease management system helps the firm track traffic, leasing rates, and rents at properties such as Vista del Campo (shown) built for the University of California, Irvine.



Campo and Vista del Campo Norte projects were the single largest public/private partnership in the student housing industry.

“ACC listened to us,” says Richard Orr, director of campus asset management for UCI. “We wanted to go a certain direction with the projects, and during the RFP process, they responded to our criteria better than anyone else. They tried to make it fit for us [and] give us what we wanted.”

The two ACC-developed properties allowed UCI to house 43 percent of its students on campus. To reach the 50 percent mark, however, the school decided in 2007 that it needed to develop a third project. So it went through another RFP process—one that ACC won without any “extra points” for its previous UCI projects. “ACC ended up blowing everyone else out of the water,” Orr says. The new UCI project will consist of 4,000 beds, and Orr says it should break ground this month with delivery in August 2010. The project is designed to achieve LEED Gold certification.

Beyond ACC’s management team, the REIT has some of the best student housing properties in the nation, Leupold adds. “ACC’s portfolio is exceptional,” he says, adding that the properties are close to campus and convenient for students who want to walk or bike to school. “That makes the properties insulated from competition.”

In fact, including the newly acquired GMH properties, 82 percent of ACC’s assets are located within 1 mile of campus. And that factor—distance to campus—is one of the three development criteria ACC relies on when acquiring assets. The other two? Barriers to entry and quality of construction.

Consider University Point at Texas Tech University in Lubbock, Texas. It is located within walking distance of the growing campus and boasts competitive floor plans and amenities. Plus, other developers would have a hard time building simi-

**LAUNCHING PAD:** The 1,866-bed Vista del Sol at Arizona State University (above and inset) was ACC’s first project under its ACE program, which uses the company’s own equity to finance deals. It was a huge success.

lar properties without being forced to lease their properties at a much higher rate.

### OPERATIONAL EXCELLENCE

Bayless says that the REIT hires “the best and the brightest at every level” and supports their personal development, providing them with opportunities for advancement. Nearly 90 percent of the company’s senior management team was promoted to that level from within the company. “We have an open-door policy and encourage debate, which promotes problem-solving and independent thinking,” he says. “All ideas are heard and considered before a final decision is made.”

Still, in the student housing arena, a great management team and quality assets aren’t enough, Bayless says. The sector is operationally intense, which is why ACC relies heavily on its proprietary technology infrastructure, dubbed the Leasing Administration & Marketing System (LAMS), to get an advantage over the competition. The Web-based system gives the REIT real-time information on

its properties, allowing the company to make strategic marketing and leasing decisions. [For more information on LAMS, see “Sweet Leases” on page 5.]

Bayless describes LAMS as “the most sophisticated operating system” in the student housing industry. And most analysts agree. “ACC has developed an operating and leasing system that is very unique to the rigors of student housing leasing and operations,” KeyBanc’s Ford says. “Their ability to get the properties leased-up, maximize revenue, and operate the properties efficiently is unique in the space.”

Greg Dowell, senior executive vice president and COO of ACC, also points out that ACC is constantly interacting with its employees at the property level so the management team hears about what’s working and what’s not. “The property people are the ones who make the money,” he says. “We realize the importance of our on-site people because leasing and resident satisfaction occur at the individual sites.”

ACC’s operational excellence is just another reason the GMH acquisition made a lot of sense, Bayless notes. “We believe there

is a significant opportunity to create net asset valuation appreciation by applying our operating platform to the GMH properties,” he explains. Specifically, Bayless says that the GMH acquisition offers the opportunity for occupancy and revenue upsides. GMH’s properties hover at an occupancy level of about 90.5 percent and rent for \$437 per bed; ACC plans to push those numbers higher. Its own beds, for instance, rent for an average of \$516.

Moreover, GMH had a completely decentralized management system, where regional vice presidents and regional managers made most leasing decisions—including setting rental rates. That will all change when ACC rolls out LAMS to the GMH portfolio for the 2009 school year. “Our initial reaction to this deal was to wonder how GMH was going to add to ACC,” Ford says. “Ultimately, we think it’s a good acquisition. ACC bought GMH at a good price, and there’s a lot of operational upside there because the GMH properties had been under-managed.”

### ACE IN THE HOLE

ACC, however, has one more trick up its sleeve. While the firm is an operational master—“We labor under a concept of better, faster, smarter,” Dowell says—the REIT is also focusing on its so-called “ace in the hole,” the American Campus Equity, or ACE, program. The ACE program is intended to allow ACC to develop student housing on-campus with its own equity without having to use third-party sources or draw on the university’s debt capacity.

According to Bayless, ACE was formed in response to an RFP issued by Arizona State University in 2005. The University wanted a financing structure that was not only “off-balance sheet” but also “off-credit.” With the traditional off-balance sheet structures having negative credit implications, using ACC equity transaction was the only suitable answer, Bayless says.

But why take this program companywide? Today, 70 percent of students live off-campus—not always by choice—according to the Washington, D.C.-based National Multi Housing Council. Many institutions don’t have the financial capacity to address their housing needs while funding new academic and research projects. Even those universities that structure off-balance sheet student housing developments often find that

ratings agencies still consider the school to be responsible for the debt. That leaves many schools facing a catch-22. They need to boost their student housing offerings to stay competitive and attract students, but they don’t have any way to pay for it. That’s where ACC steps in.

ACC did its first ACE deal with Arizona State University in 2005. The project—the 1,866-bed Vista del Sol—is located on the ASU campus in Tempe, Ariz. ACC did a ground-up lease for the project and developed the facility on its own dime. Though it won’t open for the 2008-2009 academic year until this fall, Vista del Sol was 116 percent applied for and 100 percent pre-leased by March 31.

“ACC has allowed us to move much

Honors College, a \$126.5 million, 1,720-bed community. The facility not only provides housing for honors students, but it will also house the dean’s office, study space, and classrooms. “ACC understands the educational mission and places value on that,” says Michael Coakley, associate vice president and executive director of university housing for ASU. “They truly have some of the best people I’ve ever worked with, and they understand this collaborative approach.”

Indeed, the ASU projects proved the validity of the ACE program, and in April, ACC was selected by Boise State University to begin the planning process for an ACE development there. This multi-phased project could potentially deliver BSU approxi-

## AMERICAN CAMPUS COMMUNITIES

- ▶ **Founded:** 1993
- ▶ **Headquarters:** Austin, Texas
- ▶ **Employees:** 2,326
- ▶ **2007 revenue:** : \$147.1 million
- ▶ **Beds owned/managed:** Approximately 54,300
- ▶ **Beds third-party managed:** Approximately 37,700
- ▶ **Geographic coverage:** National



**RISE IN THE RANKS:** Most of the ACC senior management team, which includes (L-R) CEO Bayless; Greg Dowell, chief operating officer; and Brian Nickel, chief investment officer, was promoted from within the Austin, Texas-based company.

faster in fulfilling a critical need than we would have been able to otherwise,” says Carol Campbell, executive vice president and CFO for ASU. “They’ve been problem solvers with us, and we have found them incredibly flexible and creative. If we had to rely on our own debt capacity, it would have taken us a lot longer.”

In addition to Vista del Sol, ACC has another ACE project under development on ASU’s Tempe campus—the Barrett

mately 2,000 beds. The project would be located on the university’s main campus, which currently houses 2,209 students and is occupied at full capacity.

“We think the ACE program is the greatest opportunity that our company has seen in student housing,” Bayless says. “Now that we have the deal with Boise State, we hope it leads us to many more opportunities.” **[M]**

