Campus Crest Communities, Inc.
Form 10-K
April 01, 2015

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, DC 20549**

**FORM 10-K**

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
**For the fiscal year ended December 31, 2014**

¨ **TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
**For the transition period from ______ to ________**

**Commission file number: 001-34872**

**CAMPUS CREST COMMUNITIES, INC.**

**(Exact name of registrant as specified in its charter)**

| | |
|---|---|
| **Maryland** | **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)** |

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

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

| **(Title of Each Class)** | **(Name of Each Exchange on Which Registered)** |
|---|---|
| Common Stock, $0.01 par value | New York Stock Exchange |
| 8% Series A Cumulative Redeemable Preferred Stock, $0.01 par value | New York Stock Exchange |

**Securities registered pursuant to Section 12(g) of the Act:**
**None**

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

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

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

(§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

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

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

| | | | |
|---|---|---|---|
| Large accelerated filer | x | Accelerated filer | ¨ |
| Non-accelerated filer | ¨ | Smaller reporting company | ¨ |

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

There were 64,659,415 shares of the registrant's common stock outstanding with a par value of $0.01 per share as of the close of business on March 26, 2015. The aggregate market value of voting and non-voting common equity held by non-affiliates of the registrant as of June 30, 2014 was approximately $563.1 million.

**DOCUMENTS INCORPORATED BY REFERENCE**

Part II and III of this report incorporate certain information by reference to the registrant's definitive Proxy Statement to be filed with respect to the 2015 annual meeting of stockholders.

**FORM 10-K**

**FOR THE YEAR ENDED DECEMBER 31, 2014**

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**CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS**

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

- the factors discussed in this report, including those set forth under the headings "Business," "Risk Factors" and "Management’s Discussion of Financial Condition and Results of Operations";
- the performance of the student housing industry in general;
- decreased occupancy or rental rates at our properties resulting from competition or other factors;
- the operating performance of our properties;
- the availability of attractive acquisition opportunities in properties that satisfy our investment criteria and the success of our acquisition activities, including satisfaction of conditions to closing for pending acquisitions and, in some cases, the negotiation and execution of definitive documents and satisfaction of the conditions therein;
- changes in the admissions or housing policies of the colleges and universities from which we draw student-tenants;
- changes in our business and growth strategies and in our ability to consummate acquisitions or dispositions or additional joint venture transactions;

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

- changes in exchange rates for foreign currencies;
- our capitalization and leverage level;
- our capital expenditures;
- the degree and nature of our competition, in terms of developing properties, consummating acquisitions and in obtaining student-tenants to fill our properties;
- 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, including international markets, whether the result of market events or otherwise;
- events or circumstances that undermine confidence in the financial markets or otherwise have a broad impact on financial markets, such as the sudden instability or collapse of large financial institutions or other significant corporations, terrorist attacks, natural or man-made disasters or threatened or actual armed conflicts;
- the availability and terms of short-term and long-term financing;
- our ability to extend the maturity of or refinance our existing debt, or comply with the financial and other covenants of the agreements that govern our existing debt;
- the credit quality of our student-tenants and parental guarantors;
- changes in personnel, including the departure of key members of our senior management, and lack of availability of, or our inability to attract and retain, qualified personnel;
- unanticipated increases in financing and other costs, including a rise in interest rates;
- estimates relating to our ability to make distributions to our stockholders in the future and our expectations as to the form of any such distributions;

- environmental costs, uncertainties and risks, especially those related to natural disasters;
- differences in cultures, including adapting practices and strategies that have been successful in our domestic business to international markets;
- changes in governmental regulations, accounting treatment, tax rates and similar matters;
- legislative and regulatory changes (including changes to laws governing the taxation of real estate investments trusts ("REIT")); and
- limitations imposed on our business and our ability to satisfy complex rules in order for us to qualify as a REIT for U.S. federal income tax purposes and the ability of certain of our subsidiaries to qualify as taxable REIT subsidiaries for U.S. federal income tax purposes, and our ability and the ability of our subsidiaries to operate effectively within the limitations imposed by these rules.

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

# PART I

## Item 1. Business.

### Our Company

Campus Crest Communities, Inc., together with its subsidiaries, referred to herein as the "Company," "we," "us," "our," and "Campus Crest," is a self-managed, self-administered REIT focused on owning and managing a diversified portfolio of high-quality, residence life student housing properties. We were incorporated in the State of Maryland on March 1, 2010. On October 19, 2010, we completed an initial public offering (the "Offering") of our common stock.

As a result of the Offering and certain formation transactions entered into in connection therewith (the "Formation Transactions"), we currently own the sole general partner interest and own limited partner interests in Campus Crest Communities Operating Partnership, LP (the "Operating Partnership"). We hold substantially all of our assets, and conduct substantially all of our business, through the Operating Partnership. The Offering and Formation Transactions were designed to (i) continue the operations of Campus Crest Communities Predecessor (the "Predecessor"), (ii) reduce outstanding mortgage and construction loan indebtedness, (iii) enable us to acquire additional interests in certain of our student housing properties, (iv) fund joint venture capital requirements, and (v) establish sufficient working capital for general corporate purposes. The exchange of entities or interests in the Predecessor for units of limited partnership interests in the Operating Partnership ("OP units") has been accounted for as a reorganization of entities under common control. As a result, our assets and liabilities have been reflected at their historical cost basis.

In February 2013, we entered into purchase and sale agreements to acquire an approximate 48.0% interest in a portfolio of 35 student housing properties, one undeveloped land parcel and a corporate office building held by the members of Copper Beech Townhome Communities, LLC ("CBTC") and Copper Beech Townhome Communities (PA), LLC (the “CB Portfolio”), and a fully integrated platform and brand with management, development and construction teams, for an initial purchase price of approximately $230.2 million, including the repayment of $106.7 million of debt. The remaining interests in the CB Portfolio are held by certain of the former members of CBTC and CBTC PA, (the “CB Investors”). In September 2013, we entered into an amendment to the above referenced purchase and sale agreements for consideration of $4.0 million whereby we will transfer our 48.0% interest in five properties in the Copper Beech Portfolio back to the CB Investors and defer the acquisition of two development properties as consideration for an additional 19.0% interest in each of the remaining 30 properties in the Copper Beech Portfolio. See Note 6 to the accompanying consolidated financial statements. Subsequent to December 31, 2014, we along with certain of our affiliates completed the acquisition of the Copper Beech Portfolio. See Note 19 to the accompanying consolidated financial statements.

During the third quarter of 2014, we began to implement a strategic repositioning which includes, among other things:

(1) Simplifying the business model by discontinuing all construction and development and focusing on organic growth;
(2) Reducing the number of joint ventures through planned dispositions of certain assets within our joint ventures to simplify asset ownership structure and reduce exposure to off-balance sheet obligations;
(3) Disposing of land which was previously held for future development (held in land and property held for sale as of December 31, 2014, some of which was disposed of subsequent to the year ended December 31, 2014 (see Note 19 to the accompanying consolidated financial statement) and the rest of which we expect to dispose of during 2015);
(4) Identifying costs savings at our properties and at the corporate office; and

(5) Focusing time and resources on recruiting new members of our management team.

During the year ended December 31, 2014, the Company discontinued all construction and development operations (see Note 7 of the accompanying consolidated financial statements).

We believe that we are one of the largest owners and managers of high-quality student housing properties in the United States, based on beds owned and under management. As of December 31, 2014, we owned interests in 47 operating student housing *The Grove*® properties containing approximately 9,700 apartment units and 26,300 beds. Thirty-six of our operating *The Grove*® properties are wholly-owned and eleven of our *The Grove*® properties are owned through joint ventures with HSRE. As of December 31, 2014, we also owned interests in 36 operating student housing Copper Beech branded properties containing approximately 6,500 apartment units and 17,300 beds. Our Copper Beech branded properties are owned by the Company and the CB Investors. As of December 31, 2014, we also owned interests in three operating student housing *evo*® properties containing approximately 1,500 units and 3,000 beds and owned one wholly-owned redevelopment property containing approximately 170 units and 340 beds. As of December 31, 2014, our operating portfolio consisted of the following:

| | Properties in Operation | Ownership | | Number of Units | Number of Beds |
|---|---|---|---|---|---|
| Wholly-owned Grove properties[1] | 36 | 100.0 | % | 7,305 | 19,945 |
| Joint venture Grove properties: | | | | | |
| HSRE I | 3 | 63.9 | %[2] | 544 | 1,508 |
| HSRE V | 3 | 10.0 | % | 662 | 1,856 |
| HSRE VI | 3 | 20.0 | % | 664 | 1,784 |
| HSRE X | 2 | 30.0 | % | 468 | 1,240 |
| Total Grove properties | 47 | | | 9,643 | 26,333 |
| Joint venture evo properties: | | | | | |
| CSH Montreal | 2 | 47.0 | % | 1,203 | 2,223 |
| HSRE IX | 1 | 30.0 | % | 344 | 850 |
| Total evo properties | 3 | | | 1,547 | 3,073 |
| CB Portfolio | 36 | 48.0 | %[3] | 6,461 | 17,283 |
| Total Portfolio[4] | 86 | | | 17,651 | 46,689 |

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

(2) In 2014, we amended and restated our operating agreement with HSRE resulting in our previously held preferred interest in The Grove at San Angelo, Texas, and The Grove at Conway, Arkansas, being converted to additional membership units of HSRE-Campus Crest I, LLC.

(3) As of December 31, 2014, we had an effective interest in the CB Portfolio of 48%. See Note 8 to the accompanying consolidated financial statements.

(4) The redevelopment of our 100% owned property in Toledo, OH, which was acquired in March 2013, is excluded.

As of December 31, 2014, the average occupancy for our 47 *The Grove*® properties was approximately 87.2% and the average monthly total revenue per occupied bed was approximately $527. Our operating properties are located in 23 states, contain modern apartment units with many resort-style amenities, and had an average age of approximately 4.0 years as of December 31, 2014. As of December 31, 2014, the average occupancy for our 36 Copper Beech branded properties was approximately 91.0%, and the average monthly total revenue per occupied bed was approximately $487. Our properties are primarily located in medium-sized college and university markets, which we define as markets located outside of major U.S. cities that have nearby schools generally with overall enrollment of approximately 5,000 to 20,000 students. We believe such markets are underserved and are generally experiencing enrollment growth.

We have developed, built and managed substantially all of our wholly-owned properties and several of our unconsolidated joint venture properties, which are based upon a common prototypical residential building design. We believe that our use of this prototypical building design, which we have built more than 700 times at our student housing properties (approximately 15 of such residential buildings comprise one student housing property), allows us to efficiently deliver a uniform and proven student housing product in multiple markets. The majority of our operating properties (other than those in the CB Portfolio, *evo*® and Toledo) operate under *The Grove*® brand, and we believe that our brand and the associated lifestyle are effective differentiators that create higher visibility and appeal for our properties within their markets both with the students as well as the universities we serve.

We began building or redeveloping nine new student housing properties in 2013 that commenced operations in August 2014, one of which is owned by a joint venture with HSRE and Brandywine Realty Trust (“Brandywine”) in which we own a 30.0% interest and act as the co-developer, one of which is owned by a joint venture with Beaumont Partners SA (“Beaumont”) in which we owned a 47.0% interest at December 31, 2014, two of which are owned by a joint venture with HSRE in which we own a 30% interest, one of which is a Copper Beech branded property in which our ownership interest is commensurate with the remainder of the CB Portfolio, and four of which are wholly-owned by us. In 2014, we completed the redevelopment of one student housing property which is owned by a joint venture with Beaumont in which we own a 47.0% interest.

**REIT Status and Taxable REIT Subsidiaries**

We have made an election to qualify, and we believe we are operating so as to qualify, as a REIT under Sections 856 through 859 of the Internal Revenue Code of 1986, as amended (the "Internal Revenue Code"), commencing with our taxable year ended December 31, 2010. As a REIT, we generally will not be subject to U.S. federal income tax to the extent that we meet the organizational and operational requirements and our distributions equal or exceed 90% of our REIT taxable income. For all periods subsequent to the REIT election, we have met the organizational and operational requirements and distributions have exceeded 90% of our REIT taxable income.

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

**Property Management and Monitoring**

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

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

*Community Assistants and Leasing Consultants.* At each property we generally maintain a ratio of 50-70 students per employee living on site. Our CA's and LC's are selected by our management based upon a set of criteria, including interpersonal skills, leadership capabilities, responsibility, maturity and willingness to meet the challenges and expectations of the position. We use these positions to interface on a peer basis with our student-tenants and to assist with various duties at the properties. Further, we use this position as a feeder for us, which allows us to evaluate these part-time employees for potential full-time managerial positions with us after they graduate. It is a position that fits well with many students' academic goals while affording them opportunities for personal growth and leadership development. The CA's and LC's perform the duties of their position in exchange for their room and a stipend. CA's and LC's are trained to provide support and assistance to our student-tenants on a variety of issues. The CA's and LC's act as community facilitators by developing an atmosphere that promotes a sense of belonging, support and affiliation. At all times, our CA's and LC's are expected to be role models and maintain the highest standards of personal conduct. Through observation and interaction with the community, the CA's and LC's help to identify potential problems and make appropriate referrals so that students may overcome obstacles to their academic achievement. Through their efforts to provide timely, accurate and thorough information in the appropriate format, CA's and LC's contribute to the smooth and effective operations of our properties. We believe that these positions are important to the success of our properties.

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

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

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

**Leasing and Marketing**

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

Unlike traditional multi-family housing, most of our leases commence and terminate on the same dates each year. In the case of our typical 11.5-month lease, these dates coincide with the commencement of the universities' fall academic term and typically terminate at the completion of the last summer school session. As such, we must re-lease each property in its entirety each year, resulting in significant turnover in our tenant population from year to year. As a result, we are highly dependent upon the effectiveness of our marketing and leasing efforts during the annual leasing season, which typically begins each October and ends in September of the following year. Approximately 37.6% and 41.7% of our current tenants renewed their lease as of the start of the fall term for the 2014-2015 and 2013-2014 academic years, respectively.

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

- the quality of our facilities, including their proximity to college and university campuses, the size and layout of units and the types of amenities offered;
- rental terms, including price, which vary based on the market in which the property is located, and per-bed rental (individual lease liability), which allows individual student-tenants to avoid responsibility for the rental of an entire apartment unit;
- community environment, including community facilities, amenities and programming, which is overseen by our staff of CA’s; and
- our relationships with colleges and universities, which may result in our properties being recommended or listed in recruiting and admissions literature provided to incoming and prospective students.

***Student Programming***

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

***Business Segments***

We define business segments by their distinct customer base and services provided. We have identified two reportable business segments: (i) student housing operations and (ii) property management services. All construction and development activities are reported in discontinued operations at December 31, 2014. We evaluate the performance of our operating segments based on operating income (loss). All inter-segment sales pricing is based on current market conditions. Unallocated corporate amounts include general expenses associated with managing our two reportable operating segments. See Note 16 to the accompanying consolidated financial statements.

## Competition

***Competition from Universities and Colleges***

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

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

***Competition from Private Owners***

We also compete with other regional and national owner-operators of off-campus student housing as well as with smaller local owner-operators. Currently, the industry is fragmented with no participant holding a dominant market share. There are a number of student housing properties that are located near or in the same general vicinity of many of our properties and that compete directly with our properties. We believe that a number of other large national companies with substantial financial and marketing resources may be potential entrants in the student housing business. The activities of any of these companies could cause an increase in competition for student-tenants and for the acquisition, development and management of other student housing properties, which could reduce the demand for our properties.

## Insurance

We carry comprehensive liability, fire, extended coverage, terrorism and rental loss insurance covering all of the properties in our portfolio. Our insurance includes coverage for earthquake damage to properties located in seismically active areas, windstorm damage to properties exposed to hurricanes, and terrorism insurance on all of our properties. Our insurance policies are subject to coverage limits and applicable deductibles, and if we suffer a substantial loss, our coverage may be insufficient. All insurance policies are also subject to coverage extensions that we believe are typical for our business. We do not carry insurance for generally uninsured losses such as loss from riots or acts of God.

## Regulation

### *General*

Student housing properties are subject to various laws, ordinances and regulations, including regulations relating to common areas. We believe that each of our operating properties has the necessary permits and approvals to operate its business. In addition, apartment community properties are subject to various laws, ordinances and regulations, including regulations relating to recreational facilities, such as swimming pools, activity centers and other common areas.

### *Americans With Disabilities Act*

Our properties must comply with Title III of the Americans with Disabilities Act of 1990, as amended, or the ADA, to the extent that such properties are "public accommodations" as defined by the ADA. The ADA may require removal of structural barriers to access by persons with disabilities in certain public areas of our properties where such removal is readily achievable.

### *Fair Housing Act*

The Fair Housing Act, or the FHA, its state law counterparts and the regulations promulgated by the U.S. Department of Housing and Urban Development, or HUD and various state agencies, prohibit discrimination in housing on the basis of race or color, national origin, religion, sex, familial status (including children under the age of 18 living with parents or legal custodians, pregnant women and people securing custody of children under 18) or handicap (disability) and, in some states, on financial capability.

***Environmental Matters***

Some of our properties contain, or may have contained, or are adjacent to or near other properties that have contained or currently contain storage tanks for the storage of petroleum products or other hazardous or toxic substances. These operations create a potential for the release of petroleum products or other hazardous or toxic substances. Third parties may be permitted by law to seek recovery from owners or operators for personal injury or property damages arising from releases from such tanks. Additionally, third parties may be permitted by law to seek recovery from owners or operators for personal injury or property damage associated with exposure to other contaminants that may be present on, at or under the properties, including, but not limited to, petroleum products and hazardous or toxic substances. Also, some of the properties include regulated wetlands on undeveloped portions of such properties and mitigated wetlands on or near our properties. Absent appropriate permits, we can be held responsible for restoring wetlands and be required to pay fines and penalties.

When excessive moisture accumulates in buildings or on building materials, mold growth may occur, particularly if the moisture problem remains undiscovered or is not addressed over a period of time. Some molds may produce airborne toxins or irritants. Concern about indoor exposure to mold has been increasing as exposure to mold may cause a variety of adverse health effects and symptoms, including allergic or other reactions. Some of our properties may contain microbial matter such as mold and mildew. The presence of significant mold at any of our properties could require us to undertake a costly remediation program to contain or remove the mold from the affected property. The presence of significant mold could expose us to liability from student-tenants, employees and others if property damage or health concerns arise.

If any property in our portfolio is not properly connected to a water or sewer system, or if the integrity of such systems is breached, microbial matter or other contamination can develop. If this were to occur, we could incur significant remedial costs and we may also be subject to private damage claims and awards, which could be material. If we become subject to claims in this regard, it could materially and adversely affect us and our insurability for such matters in the future.

**Employees**

As of December 31, 2014, we had approximately 632 employees. Our employees are not represented by a labor union.

**Offices and Website**

Our principal executive offices are located at 2100 Rexford Road, Suite 414, Charlotte, NC 28211. We also have management offices at each of our properties.

Our website is www.campuscrest.com. We make available free of charge through our website our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to these reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission ("SEC'). Our website also contains copies of our Corporate Governance Guidelines and Code of Business Conduct and Ethics, as well as the charters of our Nominating and Corporate Governance, Audit, and Compensation Committees. The information on our website is not part of this report.

## Item 1A. Risk Factors.

Carefully consider the following risk factors, the occurrence of any of which may materially and adversely affect us. The risks described below are not the only ones we face. Additional risks not presently known to us or that we may currently deem immaterial also may impair our financial condition or operations or otherwise harm us.

### Risks Related to Our Business and Properties

***Adverse economic conditions and dislocation in the credit markets have had a material and adverse effect on us and may continue to materially and adversely affect us.***

We experienced unprecedented levels of volatility in the capital markets, a reduction in the availability of credit and intense recessionary pressures, which had an adverse effect on our results of operations and our ability to borrow funds from 2007 through 2010. For example, lenders were generally imposing more stringent lending standards and applying more conservative valuations to properties. This limited the amount of indebtedness we were able to obtain and impeded our ability to develop new properties and to replace construction financing with permanent financing. If these conditions were to develop again in the future, our business and our growth strategy may be materially and adversely affected. Although our business strategy contemplates access to debt financing (including our revolving credit facility and term loans) and working capital requirements, there can be no assurance that we will be able to obtain such financing on favorable terms or at all. As of December 31, 2014, we had approximately $167.5 million outstanding under our revolving credit facility and $50.0 million outstanding under the related term loan. The amounts outstanding under our revolving credit facility and term loan will reduce the amount that we may be able to borrow under this facility for other purposes. We have approximately $50.0 million in borrowing capacity under our revolving credit facility, and amounts borrowed under the facility will be due at its maturity in January 2017 (subject to a one-year extension which we may exercise at our option, provided we comply with certain terms and conditions, including the payment of an extension fee). This indebtedness, as well as our mortgage, construction and other debt of approximately $303.5 million as of December 31, 2014, and the $100.0 million outstanding principal amount of the Operating Partnership's 4.75% Exchangeable Senior Notes due 2018, will subject us to risks associated with debt financing as described below under "Our indebtedness exposes us to a risk of default and reduces our free cash flow, which could materially and adversely affect us."

A subsequent recession or challenging economic environment may adversely affect us by, among other things, limiting or eliminating our access to financing, which would adversely affect our ability to develop and refinance properties and pursue acquisition opportunities. Significantly more stringent lending standards and higher interest rates may reduce our returns on investment and increase our interest expense, which could adversely affect our financial performance and liquidity. Additionally, limited availability of financing may reduce the value of our properties, limit our ability to borrow against such properties and, should we choose to sell a property, impair our ability to dispose of such property at an attractive price or at all, which could materially and adversely affect our financial condition and results of operations.

***Certain of our properties may be subject to liens or other claims, which could materially and adversely affect our profitability.***

We may be subject to liens or claims for materials or labor relating to disputes with subcontractors or other parties that are or were involved in the development and construction process. There can be no assurance that we will not be required to pay amounts greater than currently recorded liabilities in order to settle these claims.

***We rely on our relationships with the colleges and universities from which our properties draw student-tenants and on the policies and reputations of these schools; any deterioration in our relationships with such schools or changes in the schools' admissions or residency policies or reputations could materially and adversely affect our results of operations.***

We rely on our relationships with colleges and universities for referrals of prospective student-tenants or for mailing lists of prospective student-tenants and their parents. The failure to maintain good relationships with these schools could therefore have a material adverse effect on us. Many of these schools own and operate on-campus student housing which competes with our properties for student-tenants, and if schools refuse to provide us with referrals or to make lists of prospective student-tenants and their parents available to us or increase the cost of these lists, the lack of such referrals, lists or increased cost could have a material adverse effect on us.

Changes in admission and housing policies could adversely affect us. For example, if a school reduces the number of student admissions or requires that a certain class of students (*e.g.*, freshman) live in on-campus housing, the demand for beds at our properties may be reduced and our occupancy rates may decline. While we may engage in marketing efforts to compensate for any such policy changes, we may not be able to effect such marketing efforts prior to the commencement of the annual lease-up period, or our additional marketing efforts may not be successful, which could reduce the demand for our properties and materially and adversely affect us.

It is also important that the schools from which our properties draw student-tenants maintain good reputations and are able to attract the desired number of incoming students. Any degradation in a school's reputation could inhibit its ability to attract students and reduce the demand for our properties.

***Competition from other student housing properties, including on-campus housing and traditional multi-family housing located in close proximity to the colleges and universities from which we draw student-tenants may reduce the demand for our properties, which could materially and adversely affect our cash flows, financial condition and results of operations.***

Our properties compete with properties owned by universities, colleges, national and regional student housing businesses and local real estate concerns. On-campus student housing has inherent advantages over off-campus student housing (such as the majority of our properties), due to its physical location on the campus and integration into the academic community, which may cause student-tenants to prefer on-campus housing to off-campus housing. Additionally, colleges and universities may have financial advantages that allow them to provide student housing on terms more attractive than our terms. For example, colleges and universities can generally avoid real estate taxes and borrow funds at lower interest rates than private, for-profit real estate concerns, such as our company.

There are a number of student housing properties located near or in the same general vicinity of many of our properties that compete directly with our properties. Such competing student housing properties may be newer, located closer to campus, charge less rent, possess more attractive amenities, offer more services or offer shorter lease terms or more flexible lease terms than our properties. Competing properties could reduce demand for our properties and materially and adversely affect our rental income.

Revenue at a particular property could also be adversely affected by a number of other factors, including the construction of new on-campus and off-campus housing, decreases in the general levels of rents for housing at competing properties, decreases in the number of students enrolled at one or more of the colleges or universities from which the property draws student-tenants and other general economic conditions.

Although we believe no participant in the student housing industry holds a dominant market share, we compete with larger national companies, colleges and universities with greater resources and superior access to capital. Furthermore, a number of other large national companies with substantial financial and marketing resources may enter the student housing business. The activities of any of these companies, colleges or universities could cause an increase in competition for student-tenants and for the acquisition, development and management of other student housing properties, which could reduce the demand for our properties.

***Our results of operations are subject to risks inherent in the student housing industry, such as an annual leasing cycle and limited leasing period, which could materially and adversely affect us.***

We generally lease our properties for 11.5-month terms, and the related leases provide for 12 equal monthly payments of rent. Therefore, our properties must be entirely re-leased each year, exposing us to more leasing risk than property lessors that lease their properties for longer terms. Student housing properties are also typically leased during a limited leasing period that generally begins each October and ends in September of the following year. We are therefore highly dependent on the effectiveness of our marketing and leasing efforts and personnel during this leasing period. We will be subject to heightened leasing risk at properties we may acquire in the future due to our lack of experience leasing such properties. Any significant difficulty in leasing our properties would adversely affect our results of operations, financial condition and ability to pay distributions on our securities and would likely have a negative impact on the trading price of our securities. As of the start of the fall term for the 2014-2015 and 2013-2014 academic years, we had approximately 37.6% and 41.7%, respectively, of our current tenants renew their previous lease for the upcoming term.

Additionally, student-tenants may be more likely to default on their lease obligations during the summer months, which could further reduce our revenues during this period. Although we typically require a student-tenant’s lease obligations to be guaranteed by a parent, we may have to spend considerable effort and expense in pursuing payment upon a defaulted lease, and our efforts may not be successful.

***Our future success is substantially dependent on our ability to attract and retain key management executives.***

Our future success depends in large part upon our ability to attract and retain key management executives and other key employees. In the last year, as part of our strategic repositioning, several members of our senior management team have departed, including our former chief executive officer, our former chief financial officer and other former senior members of our executive management team, and we are actively searching to fill several key roles. Aaron S. Halfacre, our chief investment officer, was recently elevated to the additional role as President, and Scott R. Rochon, chief accounting officer, is serving as our acting chief financial officer. The continued turnover of senior management and the loss of key members of our executive team could have a negative impact on our ability to manage and grow our business effectively. Turnover of executives and senior management can adversely impact our stock price, our results of operations and our client relationships and may make recruiting for future management positions more difficult or may require us to offer more generous executive compensation packages to attract top executives. In addition, we must successfully integrate any newly hired management personnel within our organization in order to achieve our operating objectives. The key initiatives directed by these executives may take time to implement and yield positive results, if at all. If our new executives do not perform up to expectations, we may experience declines in our financial performance or delays in our long-term growth strategy.

***The current economic environment could reduce enrollments and limit the demand for our properties, which could materially and adversely affect our cash flows, profitability and results of operations.***

A continuation of ongoing economic conditions that adversely affect household disposable income, such as high unemployment levels, weak business conditions, reduced access to credit, increasing tax rates and high fuel and energy costs, could reduce overall student leasing or cause student-tenants to shift their leasing practices as students may determine to forego college or live at home and commute to college.

As a result of general economic weakness, many students may be unable to obtain student loans on favorable terms. In addition, despite the recent economic weakness, tuition and other costs associated with attending college have continued to rise. If student loans are not available or their costs are prohibitively high, enrollment numbers for schools from which we draw student-tenants may decrease, resulting in a decrease in the demand for, and consequently the occupancy rates at and rental revenue from, our properties. Accordingly, the continuation or deterioration of current economic conditions could materially and adversely affect our cash flows, profitability and results of operations.

***In the past, we have experienced significant net losses; if this trend continues, we could be materially and adversely affected.***

For the years ended December 31, 2014, 2013, 2010 and 2009, we incurred significant net losses. These results have had a negative impact on our financial condition. While we experienced net income for the years ended December 31, 2012 and 2011, and believe that we are adequately capitalized and able to continue to operate our business, there can be no assurance that our business will be profitable in the future and additional losses will not be incurred. If the trend of incurring significant net losses continues in the future, our financial performance, liquidity and our ability to operate our business as a going concern could be materially and adversely affected.

***If we are unable to acquire properties on favorable terms, our future growth could be materially and adversely affected.***

Our future growth will depend, in part, upon our ability to acquire new properties on favorable terms. Acquisition opportunities may not be available to us on terms that we deem acceptable, and we may be unsuccessful in consummating acquisition opportunities. Our ability to acquire properties on favorable terms and successfully operate them may be adversely affected by:

- an inability to obtain financing on attractive terms or at all;
- increased purchase prices and decreased expected yields due to competition from other potential acquirers and real estate investors;
- the need to make significant and unexpected capital expenditures to improve or renovate acquired properties;
- an inability to quickly and efficiently integrate acquisitions, particularly any acquisitions of portfolios of properties, into our existing operations;
- market conditions resulting in higher than expected vacancy rates and lower than expected rental rates at acquired properties; and
- acquisition of properties subject to liabilities but without any recourse, or with only limited recourse, to the sellers, or with liabilities that are unknown to us, such as liabilities for clean-up of undisclosed environmental contamination, claims by tenants, vendors or other persons dealing with the former owners of our properties.

Our failure to identify and consummate property acquisitions on attractive terms or the failure of any acquired properties to meet our expectations could materially and adversely affect our future growth.

***Our strategy of investing in properties located in medium-sized college and university markets may not be successful, which could materially and adversely affect us.***

Our business strategy involves investing in properties located in medium-sized college and university markets, which are smaller than larger educational markets. Larger educational markets, such as Boston, Massachusetts or Washington, D.C., often have multiple colleges and universities that have larger enrollments than schools located in medium-sized college and university markets and attract students nationally and internationally. The colleges and universities that our properties draw student-tenants from typically have smaller enrollments than schools in larger educational markets and tend to attract students from within the region in which the school is located. If the schools in our markets experience reduced enrollment, for example due to adverse economic conditions or rising tuition costs, or are unable to attract sufficient students to achieve a desired class size, the pool of prospective student-tenants for our properties will be reduced. This could have the result of reducing our occupancy and lowering the revenue from our properties, which could materially and adversely affect our financial performance and liquidity.

***Our indebtedness exposes us to a risk of default and reduces our free cash flow, which could materially and adversely affect us.***

As of December 31, 2014, our total consolidated indebtedness was approximately $618.4 million. Our debt service obligations expose us to the risk of default and reduced cash available to invest in our business or pay distributions that are necessary to qualify and remain qualified as a REIT. Our ability to meet the ongoing payment obligations of our indebtedness depends on our ability to generate significant cash flow in the future. Our ability to generate cash flow, to some extent, is subject to general economic, financial, competitive, legislative and regulatory factors, as well as other factors that are beyond our control. We cannot assure you that our business will generate cash flow from operations, or that capital will be available to us, in amounts sufficient to enable us to meet our payment obligations under our exchangeable senior notes, our credit agreements and our outstanding preferred stock and to fund our other liquidity needs. If we are not able to generate sufficient cash flow to service these obligations, we may need to refinance or restructure our debt, sell assets (which we may be limited in doing in light of the relatively illiquid nature of our properties), reduce or delay capital investments, or seek to raise additional capital. If we are unable to implement one or more of these alternatives, we may not be able to meet these payment obligations, which could materially and adversely affect our liquidity.

Our charter does not contain any limitation on the amount of indebtedness that we may incur. In the future, we may incur substantial indebtedness in connection with the development or acquisition of additional properties and for other working capital needs, or to fund the payment of distributions to our stockholders.

In addition, a tax protection agreement to which we are a party requires us to maintain a minimum level of indebtedness of $56.0 million throughout a 10-year tax protection period, which ends in October 2020, in order to allow a sufficient amount of debt to be allocable to MXT Capital, LLC, a Delaware limited liability company ("MXT Capital"), which is wholly-owned and controlled by Ted Rollins, our former chief executive officer, and Michael S. Hartnett, our former vice chairman of special projects, and certain members of their families, to avoid certain adverse tax consequences. If we fail to maintain such minimum indebtedness throughout the 10-year tax protection period, we will be required to make indemnifying payments to MXT Capital, in an amount equal to the federal, state and local taxes, if any, imposed on its members as a result of any income or gain recognized by them by reason of such failure. The amount of such taxes will be computed based on the highest applicable federal, state and local marginal tax rates, as well as any "grossed up" taxes imposed on such payments. This requirement may restrict our ability to reduce leverage when we otherwise might wish to do so and generally reduce our flexibility in managing our capital structure.

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Our indebtedness and the limitations imposed on us by our indebtedness could have significant adverse consequences, including the following:

- we may be unable to borrow additional funds as needed or on favorable terms;
- we may be unable to renew, repay or refinance our indebtedness at maturity or the renewal or refinancing terms may be less favorable than the terms of the indebtedness being renewed or refinanced;
- we may be forced to dispose of certain of our properties, possibly on disadvantageous terms;
- we may default on our payment or other obligations as a result of insufficient cash flow or otherwise, which may result in a cross-default on our other obligations, and the lenders or mortgagees may foreclose on our properties that secure their loans and receive an assignment of rents and leases;
- to the extent that we incur unhedged floating rate debt, we will have exposure to interest rate risk; and
- foreclosures could create taxable income without accompanying cash proceeds, a circumstance which could hinder our ability to meet the distribution requirements necessary to enable us to qualify and remain qualified for taxation as a REIT.

Compliance with the provisions of our debt agreements, including financial and other covenants, such as the maintenance of specified financial ratios, could limit our flexibility, and a default under these agreements could result in a requirement that we repay indebtedness, which could severely affect our liquidity and increase our financing costs, which could materially and adversely affect our business, financial condition and results of operations.

In addition to our consolidated indebtedness, we are guarantor on construction and mortgage debt of our ventures with Harrison Street Real Estate Capital (“HSRE”) and Beaumont Partners SA (“Beaumont”), as described below in Management’s Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources – Off-Balance Sheet Arrangements.

***Our failure to comply with the financial and other covenants of the agreements that govern our existing debt could have a material adverse effect on our financial condition***.

The documents that govern our outstanding indebtedness contain customary negative covenants and other financial and operating covenants that, among other things:

- restrict our ability to incur certain additional indebtedness;
- restrict our ability to make certain investments;
- restrict our ability to effect certain mergers;
- restrict our ability to make distributions to stockholders; and
- require us to maintain certain financial coverage ratios.

Pursuant to the terms of our credit facility, we may not pay distributions that exceed the greater of (i) 95.0% of our funds from operations, or (ii) the minimum 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 also may be precluded from making certain distributions (other than those required to allow the Company to qualify and maintain its status as a REIT). These limitations restrict our ability to engage in some business activities, which could adversely affect our financial condition, results of operations, cash flow and the per share trading price of our securities. In addition, if we fail to comply with any of these covenants, including the financial coverage ratios, this could result in our having to seek an amendment or waiver from our lenders to avoid an event of default and/or the acceleration of some or all of our indebtedness, which would have a material adverse effect on us. From time to time, we have sought and received waivers of certain of these provisions, but there can be no guarantee that we will be able to obtain waivers of these provisions in future periods.

In April 2013, as a result of the CB Portfolio Acquisition, we received a waiver from our lender group allowing for increased distributions of our funds from operations for the remainder of 2013. In February 2013, we amended our amended credit facility to provide for certain exclusions related to our investments in joint ventures as well as the treatment of certain other investments within the compliance calculation of our secured debt ratio and certain negative covenants. In June 2013, in connection with our investment in a joint venture with Beaumont to acquire a property in Montreal, Quebec, Canada, we received a waiver from our lender group allowing us to guarantee debt incurred by our subsidiary, Campus Crest at Montreal I, LLC, to fund such investment. On September 30, 2014, we received a waiver with respect to the distribution payout ratio for each distribution payout date through the end of 2015. The waiver was expressly conditioned on the following: (i) no default or event of default shall have occurred and be continuing and (ii) as of each test date during 2015, the payout ratio shall be equal to or less than (A) 105% or (B) such greater amount as may be required by applicable law for us to maintain our status as a REIT. On February 25, 2015, we received a waiver under our amended credit facility that provides relief from certain financial covenants during a relief period that runs from December 31, 2014 until and including September 30, 2015. During the relief period the following new measurements will apply to covenant tests: Maximum Leverage Ratio of not greater than 0.65:1.00; Maximum Secured Debt Ratio of not greater than 47.5%; Minimum Fixed Charge Ratio of not less than 1.30:1.00; and a Dividend Payout Ratio of not more than 105.0% calculated on a pro forma basis that applies the current quarterly dividend of $0.090 on a trailing twelve month basis.

The cost of our obtaining an amendment or waiver in the future could be significant, and further, there can be no assurance that we would be able to obtain an amendment or waiver if necessary in the future. If our lenders were unwilling to enter into an amendment or provide a waiver, all amounts outstanding under our credit facility could become immediately due and payable. Furthermore, the documents that govern our outstanding indebtedness contain certain cross-default provisions with respect to specified other indebtedness, giving the lenders the right to declare a default if we are in default under other loans in some circumstances.

***We may be unable to satisfy our debt obligations upon a change of control of us.***

Under the documents that govern our indebtedness, if we experience a change of control, we could be required to repay the entire principal balance of our outstanding indebtedness. Under our Exchangeable Senior Notes indenture, if we experience a fundamental change, as defined in the indenture, we must offer to purchase the notes at 100% of their principal amount, plus accrued interest. As defined in the indentures, fundamental change includes, among other things, the acquisition of more than 50% of our voting securities by any person or group, or the failure of a majority of the members of our board of directors to be continuing directors whose nomination or election were approved by the majority of the board. Under the credit agreement that governs our revolving credit facility, if we experience a change of control, as defined in the credit agreement, the lenders may declare an event of default and accelerate payment of the entire principal balance of the facility. As defined in the credit agreement, a change of control includes, among other things, the acquisition of more than 35% of our voting securities by any person or group, or a change in the majority of the members of our board of directors unless the new members were elected or nominated for election by a majority of the board. We might not have sufficient funds to repay the amounts due under the revolving credit facility or pay the required price for the notes following a change of control.

***Variable rate debt is subject to interest rate risk.***

As of December 31, 2014, approximately $354.8 million of our aggregate indebtedness (approximately 57.4% of total indebtedness) was subject to variable interest rates. In addition, we may incur additional variable rate debt in the future. While we have entered into arrangements that hedge the risk of rising interest rates, there can be no assurance that such arrangements will adequately protect against rising interest rates or that we will be able to enter into interest rate hedging arrangements in the future. If we are unable to enter into arrangements that hedge the risk of rising interest rates, increases in interest rates on variable rate debt would increase our interest expense, which would adversely affect net income and cash available for payment of our debt obligations and distributions to stockholders.

***Joint venture investments could be materially and adversely affected by our lack of decision-making authority, our reliance on our co-venturers' financial condition and disputes between our co-venturers and us.***

Our properties located in Lawrence, Kansas, San Angelo, Texas, and Conway, Arkansas, comprising approximately 3.2% of our beds, are held in a joint venture with HSRE, in which we own a 63.9% interest. Our properties located in Fayetteville, Arkansas, Laramie, Wyoming and Stillwater, Oklahoma, comprising approximately 4.0% of our beds, are held in a joint venture with HSRE, in which we own a 10.0% interest. Our properties located in Indiana, Pennsylvania, State College, Pennsylvania and Norman, Oklahoma, comprising approximately 3.8% of our beds, are held in a joint venture with HSRE, in which we own a 20.0% interest. Our properties located in Louisville, Kentucky and Greensboro, North Carolina, comprising approximately 2.7% of our beds, are held in a joint venture with HSRE, in which we own a 30.0% interest. Our property located in Philadelphia, Pennsylvania, comprising 1.8% of our beds, is held in a joint venture with HSRE and Brandywine, in which we own a 30.0% interest with completion targeted for the 2014-2015 academic year. Our properties located in Montreal, Quebec, comprising 4.8% of our beds, are held in a joint venture with Beaumont Partners, in which we own a 47.0% interest as a limited partner. In addition, at December 31, 2014, we held an effective 48.0% investment in the CB Portfolio, comprising 37.0% of our beds, and, pursuant to the terms of the agreements governing this investment, share decision making authority with the CB Investors, though as of January 30, 2015, we increased our ownership to 100% for many of the properties in the CB Portfolio.

We may not have a controlling interest in a joint venture and may share responsibility with our co-venturer for managing the property held by the joint venture. Under such circumstances, we may not have sole decision-making authority regarding the joint venture's property. With regard to our joint venture in Canada with Beaumont Partners, we are a limited partner with no general partner representation and limited control rights. Investments in joint ventures, under certain circumstances, involve risks not present when we invest in a property without the involvement of a third party. For example, our co-venturer may have economic or other business interests or goals that are inconsistent with our business interests or goals, and may be in a position to take actions contrary to our preferences, policies or objectives. Additionally, it is possible that our co-venturer might become bankrupt, fail to fund its share of required capital contributions or block or delay decisions that we believe are necessary. With regard to our joint venture in Canada with Beaumont Partners, our co-venturer may take, or fail to take, actions that could result in a loan default, which may further result in a cross-default of our other indebtedness. Joint venture investments may also have the potential risk of impasses on decisions, such as sales, because neither we nor our co-venturers may have full control over the joint venture. Disputes between us and our co-venturer may result in litigation or arbitration that would increase our expenses and divert the attention of our officers and directors from other aspects of our business. Consequently, actions by or disputes with our co-venturers might result in subjecting properties owned by the joint venture to additional risk. In addition, we may in certain circumstances be liable for the actions of our third-party co-venturers. Any of the foregoing factors could materially and adversely affect the financial condition and results of operations of our joint-venture investments.

In addition, our operating agreements with our co-venturers contain provisions that upon the occurrence of various triggering events could allow our co-venturers to remove us from management control of the properties held by the venture, sell those properties without our consent at prices determined by our co-venturer, and acquire our interest in the venture at values that could be disadvantageous to us. These triggering events could include, among other things, a material breach of the terms of the operating agreement or other venture agreements, or change in control of the Company (in the case of certain of our ventures with HSRE) or of the Operating Partnership or of our various subsidiaries which are involved with such ventures. The agreements governing the ventures also contain various mutual covenants as to competition within a prescribed territory near the properties operated by the venture. We are guarantor on construction and mortgage debt of our ventures with HSRE, as described below in Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources – Off-Balance Sheet Arrangements, and those guarantees would continue in effect under most circumstances even if we are removed from management of the venture. As guarantor, if a property realizes proceeds upon sale that are insufficient to pay off the underlying debt, we could be obligated to pay off the remaining balance. For the reasons described in this paragraph, the removal of the Company from management or ownership of an interest in any venture, or the sale of any venture property at disadvantageous prices, could thus have a material adverse effect on us if it impacts any material number of properties which we currently manage. The terms of our operating agreements and the complexities of our venture arrangements may impact any potential third party acquisition proposal for us or delay, defer or prevent a change in control.

***We could be negatively impacted by the condition of Fannie Mae or Freddie Mac.***

Fannie Mae and Freddie Mac are a major source of secured financing to the student housing industry and we have used Freddie Mac for a portion of our financing needs. In February 2011, the U.S. Treasury along with the U.S.

Department of Housing and Urban Development released a report calling for the winding down of the role that Fannie Mae and Freddie Mac play in the mortgage market. In February 2012, the Federal Housing Finance Agency delivered a strategic plan to Congress to wind down Fannie Mae and Freddie Mac over the next several years. This proposal includes building a new infrastructure for the secondary mortgage market, continuing to shrink Fannie Mae’s and Freddie Mac’s operations by eliminating the direct funding of mortgages and shifting mortgage credit risk to private investors. In addition, in August 2012, the U.S. Treasury announced further steps to expedite the winding down of Fannie Mae and Freddie Mac by accelerating the rate at which Fannie Mae’s and Freddie Mac’s investment portfolios will be reduced to target levels agreed to with the U.S. Treasury. Pursuant to these steps, Fannie Mae’s and Freddie Mac’s investment portfolios must be reduced to the agreed target four years earlier than previously scheduled. A final decision by the government to eliminate Fannie Mae or Freddie Mac or reduce their acquisitions or guarantees of student housing property loans may adversely affect interest rates, capital availability, and the value of student housing properties. If we are unable to react effectively and quickly to changes in the mortgage industry, our business could be harmed.

***We have a limited operating history as a REIT and as a publicly traded company and may not be able to successfully operate as a REIT or a publicly traded company.***

We have a limited operating history as a REIT and as a publicly traded company. We cannot assure you that the past experience of our senior management team will be sufficient to successfully operate our company as a REIT or a publicly traded company, including the requirements to timely meet disclosure requirements of the SEC and comply with the Sarbanes-Oxley Act of 2002. Since our initial public offering, we have been subject to various requirements related to REITs and publicly traded companies, including requirements to develop and implement control systems and procedures in order to qualify and maintain our qualification as a REIT and satisfy our periodic and current reporting requirements under applicable SEC regulations and comply with New York Stock Exchange ("NYSE") listing standards. Our continued compliance with these requirements could place a significant strain on our management systems, infrastructure and other resources. Failure to operate successfully as a public company or qualify and maintain our qualification as a REIT would have an adverse effect on our financial condition, results of operations, cash flow and the per share trading price of our securities.

***The material weakness in our internal control over financial reporting may adversely impact our business and financial results.***

Effective internal and disclosure controls are necessary for us to provide reliable financial reports and effectively prevent fraud and to operate successfully as a public company. If we cannot provide reliable financial reports or prevent fraud, our reputation and operating results would be harmed. As part of our ongoing monitoring of internal controls we may discover material weaknesses or significant deficiencies in our internal controls. As a result of weaknesses that may be identified in our internal controls, we may also identify certain deficiencies in some of our disclosure controls and procedures that we believe require remediation. If we discover weaknesses, we will make efforts to improve our internal and disclosure controls. However, there is no assurance that we will be successful.

In connection with management's evaluation of the effectiveness of the Company's internal control over financial reporting, management identified a material weakness in the Company's internal control over financial reporting as of December 31, 2014, which related to our control environment, risk assessment process, information and communication components and process-level controls. See "Part II—Item 9A—Controls and Procedures" for a discussion of our internal control over financial reporting, including a discussion of the material weakness. If the new controls being implemented to address the material weakness and to strengthen the overall internal control over financial reporting are not designed or do not operate effectively, if we are unsuccessful in implementing or following these new processes or are otherwise unable to remediate this material weakness, this may result in untimely or inaccurate reporting of our financial condition or results of operations.

Any failure to maintain effective controls or timely effect any necessary improvement of our internal and disclosure controls could harm operating results or cause us to fail to meet our reporting obligations, which could affect the eligibility of our stock to remain listed on the NYSE. Ineffective internal and disclosure controls could also cause investors to lose confidence in our reported financial information, which would likely have a negative effect on the per share trading price of our securities.

***Breaches of our data security could materially harm our business and reputation.***

We collect and retain certain personal information provided by our student-tenants and employees. While we have implemented a variety of security measures to protect the confidentiality of this information and periodically review and improve our security measures, there can be no assurance that we will be able to prevent unauthorized access to this information. Any breach of our data security measures and loss of this information may result in legal liability and costs (including damages and penalties), as well as damage to our reputation, that could materially and adversely affect our business and financial performance.

***Our investment in properties subject to ground leases with unaffiliated third parties exposes us to the potential loss of such properties upon the expiration or termination of the ground leases, and the realization of such loss could materially and adversely affect us. Our properties at the University of South Alabama and Colorado State University are also subject to a right of first refusal that may inhibit our ability to sell them.***

Our properties located near the campuses of the University of South Alabama and Colorado State University are subject to ground leases with unaffiliated third parties. In addition, we may invest in additional properties that are subject to ground leases with unaffiliated third parties. As the lessee under a ground lease with an unaffiliated third party, we are exposed to the possibility of losing our leasehold interest in the land on which our buildings are located. A ground lease may not be renewed upon the expiration of its current term or may be terminated by the lessor pursuant to the terms of the lease if we do not meet our obligations thereunder.

In the event of an unsecured default under any of our existing ground leases, the lessor may terminate our leasehold interest in the land on which our buildings are located. Any termination of our existing ground leases with unaffiliated third parties, unless in conjunction with the exercise of a purchase option, would also result in termination of our management agreement relating to the property. If we lose the leasehold interest in any of our properties, we could be materially and adversely affected.

Our properties located at the University of South Alabama and Colorado State University are also subject to a right of first refusal pursuant to which the ground lessor entity related to the land has a right to purchase our leasehold interest in the relevant property in the event we decide to accept an offer to sell either property to a third party. This may inhibit our ability to sell these properties. Further, our right to transfer one of the on-campus properties is subject to the consent of the ground lessor, which consent may not be unreasonably withheld.

***We may incur losses on hedging arrangements, which could materially and adversely affect our financial condition and results of operations.***

We currently use, and may in the future enter into, hedging agreements. Although these agreements may partially protect against rising interest rates, they also may reduce the benefits to us if interest rates decline. If an arrangement is not indexed to the same rate as the indebtedness that is hedged, we may be exposed to losses to the extent the rate governing the indebtedness and the rate governing the hedging arrangement change independently of each other. Finally, nonperformance by the other party to the arrangement may subject us to increased credit risks. The occurrence of any of the foregoing could materially and adversely affect our financial condition and results of operations.

***Our inability to pass-through increases in taxes or other real estate costs to our student-tenants could materially and adversely affect our financial performance and liquidity.***

Each of our properties is subject to real and personal property taxes. These taxes may increase as tax rates change and as the properties are assessed or reassessed by taxing authorities. We generally are not able to pass through to our student-tenants under existing leases any increases in taxes, including real estate and income taxes, or other real estate related costs, such as insurance or maintenance. Consequently, unless we are able to off-set any such increases with sufficient revenues, we may be materially and adversely affected by any such increases.

***The prior performance of our properties may not be indicative of our future performance.***

All of our properties have been acquired or developed by us and/or our predecessor entities within the past ten years and have limited operating histories. Consequently, the historical operating results of our properties and the financial data we have disclosed may not be indicative of our future performance. The operating performance of the properties may decline and we could be materially and adversely affected.

***Reporting of on-campus crime statistics required of colleges and universities may negatively impact our properties.***

Federal and state laws require colleges and universities to publish and distribute reports of on-campus crime statistics, which may result in negative publicity and media coverage associated with crimes occurring in the vicinity of, or on the premises of, our on-campus properties. Reports of crime or other negative publicity regarding the safety of the students residing on, or near, our properties may have an adverse effect on both our on-campus and off-campus properties.

***We may be subject to liabilities from litigation, which could materially and adversely affect our financial condition or results of operations.***

We have been involved in legal proceedings in connection with our business, and may become involved in additional legal proceedings, including consumer, employment, tort or commercial litigation that, if decided adversely to or settled by us and not adequately covered by insurance, could result in liabilities that could materially and adversely affect our financial condition or results of operations.

***We face risks associated with land holdings.***

We hold land for future development and may in the future acquire additional land holdings. The risks inherent in owning or purchasing and developing land increase as demand for student housing, or rental rates, decrease. As a result, we hold certain land and may in the future acquire additional land in our development pipeline at a cost we may not be able to recover fully or on which we cannot build and develop into a profitable student housing project. In addition, real estate markets are highly uncertain and, as a result, the value of undeveloped land has fluctuated significantly and may continue to increase as a result of changing market conditions. Further, carrying costs associated with land holdings can be significant and can result in losses or reduced margins in a poorly performing project. Under current market conditions, we may have impairments of our land held for sale.

***Our issuance of common stock under our At-The-Market offering program may be dilutive, and there may be future dilution of our common stock.***

After giving effect to the issuance of common stock under our At-The-Market offering program and the receipt of the expected net proceeds and the use of those proceeds, there may be a dilutive effect on our estimated earnings per share and funds from operations per share in years during which an offering is ongoing. The actual amount of potential dilution cannot be determined at this time and will be based on numerous factors. Additionally, we are not restricted by our organizational documents, contractual arrangements or otherwise from issuing additional common stock or preferred stock, including any securities that are convertible into or exchangeable or exercisable for, or that represent the right to receive, common stock or preferred stock or any substantially similar securities in the future. The market price of our common stock could decline as a result of issuances of a large number of shares of our common stock after this offering or the perception that such issuances could occur.

***Our management will have broad discretion with respect to the use of the proceeds resulting from the issuance of common stock under our At-The-Market offering program.***

Our management has significant flexibility in applying the net proceeds we expect to receive from the issuance of common stock under the Equity Distribution Agreements. We intend to use the net proceeds from this offering for general corporate purposes, which may include repaying debt, including our revolving credit facility. However, because the net proceeds are not required to be allocated to any specific investment or transaction, investors cannot determine at the time of issuance the value or propriety of our application of the net proceeds, and investors may not agree with our decisions. In addition, our use of the net proceeds from the offering may not yield a significant return or any return at all. The failure by our management to apply these funds effectively could have an adverse effect on our financial condition, results of operations or the trading price of our common stock.

***Our Canadian exposure may subject us to different or greater risk from those associated with our domestic operations, and we may recognize additional asset impairment charges with respect to our Canadian real estate assets in the future.***

We hold interests in two joint venture properties that operate in Canada. International development and ownership activities carry risks that are different from those we face with our domestic properties and operations. These risks include:

- adverse effects of changes in exchange rates for foreign currencies;
- changes in foreign political and economic environments, regionally, nationally, and locally;
- costs associated with complying with a wide variety of foreign laws including corporate governance, operations, taxes, and litigation;
- difficulties in managing international operations, including difficulties that arise from ambiguities in contracts written in foreign languages and difficulties that arise in enforcing such contracts;
- differing lending practices;
- uncertainties in estimating potential tax liabilities;
- differing employment and labor issues;
- changes in applicable laws and regulations in the United States that affect foreign operations;
- obstacles to the repatriation of earnings and cash;
- obstacles to hiring appropriately trained staff; and
- differences in cultures including adapting practices and strategies that have been successful in the U.S. student housing business to retail needs and expectations in new markets.

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. The estimation of expected future undiscounted cash flows is inherently uncertain and relies on assumptions regarding current and future economics and market conditions. During the year ended December 31, 2014, we recorded an impairment of $26.5 million related to our investment in CSH Montreal LP (“CSH Montreal”), as discussed in Note 11 of the accompanying consolidated financial statements. As a result of the uncertainty in the valuation, and in the stability of, the cash flows, discount rates and other factors related to such assets, we may be required to recognize additional asset impairment charges in the future.

Although our international activities currently are a relatively small portion of our business, these risks could increase in significance which in turn could adversely affect our results of operations and financial condition.

***A currently threatened proxy contest and any other actions of activist stockholders could have a negative effect on our business.***

On March 5, 2015, a shareholder that currently holds approximately 1.4% of our common stock filed a preliminary proxy statement with the SEC to nominate four alternative director nominees for election to our board of directors at the Company's 2015 annual meeting of shareholders. Our board of directors has not endorsed such shareholder’s director nominees. If a proxy contest or any other dissident stockholder activity ensues, then our business could be adversely affected because responding to proxy contests, litigation and other actions by dissident stockholders can be costly and time-consuming, disrupt our operations and divert the attention of management and our employees. In addition, perceived uncertainties as to our future direction may result in the loss of potential business opportunities and harm our ability to attract new investors, employees and clients. If the Company’s current directors cease to constitute a majority of our board of directors due to the currently threatened proxy contest or otherwise, it may adversely affect our ability to effectively and timely implement our current initiatives, retain and attract experienced executives and employees, and execute on our long-term strategy, and, under certain circumstances, could require us to repay our outstanding indebtedness prior to maturity. See the Risk Factor entitled “We may be unable to satisfy our debt obligations upon a change of control of us.” Also, we may experience a significant increase in legal fees, administrative and associated costs incurred in connection with responding to a proxy contest or related action. These actions could also cause our stock price to experience periods of volatility or stagnation.

***We may not make distributions to our stockholders or be able to maintain our current distribution rate, and we may be required to fund the minimum distribution necessary to qualify for taxation as a REIT from sources that could reduce our cash flows***.

Our ability to fund any distributions will depend, in part, upon continued successful leasing of our existing portfolio and successful management services. To the extent these sources are insufficient, we may use our working capital or borrowings under our revolving credit facility to fund distributions, if and to the extent then permitted under the terms of our credit facility. If we need to fund future distributions with borrowings under our revolving credit facility or from working capital, or if we reduce our distribution rate, our stock price may be adversely affected. In addition, to the extent that we fund any distributions with borrowings under our revolving credit facility or from working capital, our cash available for investment in our business, including for property development and acquisition purposes, will decrease.

In addition, in order to qualify for taxation as a REIT, among other requirements, we must make distributions to stockholders aggregating annually to at least 90% of our REIT taxable income, excluding net capital gains. To the extent that, in respect of any calendar year, cash available for distribution to our stockholders is less than our REIT taxable income, we would be required to fund the minimum distribution necessary to qualify for taxation as a REIT from other sources, which could include asset sales or borrowings. Funding a distribution through asset sales or borrowings could reduce our cash flow from operations, increase our interest expense and decrease our cash available for investment in our business. We may also choose to meet this distribution requirement by distributing a combination of cash and shares of our common stock. See "Federal Income Tax Risk Factors—We may pay taxable dividends of our common stock and cash, in which case stockholders may sell shares of our common stock to pay tax on such dividends, placing downward pressure on the market price of our common stock."

Any distributions in excess of our current and accumulated earnings and profits will not be taxable to a holder to the extent that they do not exceed the holder’s adjusted basis in the shares of stock in respect of which the distributions were made, but rather, will reduce the adjusted basis of these shares. To the extent that such distributions exceed the adjusted basis of a stockholder’s shares, they will generally be included in income as capital gains.

We have the right to accumulate and not pay dividends on the Series A Preferred Stock. If dividends on the Series A Preferred Stock are not paid, holders of our Common Stock will not receive any dividend distributions. If we have REIT taxable income during 2015, and we do not distribute at least 90% of our REIT taxable income, excluding net capital gains, then we will not be taxed as a REIT during calendar year 2015, which could have a material adverse effect on us and on the value of our securities.

**Risks Related to the Real Estate Industry**

***Our performance and the value of our properties are subject to risks associated with real estate and with the real estate industry, which could materially and adversely affect our cash flows, financial condition and results of operations.***

Our ability to make distributions to our stockholders depends on our ability to generate cash revenues in excess of our expenses, including expenses associated with our development activities, indebtedness and capital expenditure requirements. The occurrence of certain events and conditions that are generally applicable to owners and operators of real estate, many of which are beyond our control, could materially and adversely affect us. These events and conditions include:

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- adverse national, regional and local economic conditions;
- rising interest rates;
- oversupply of student housing in our markets, increased competition for student-tenants or reduction in demand for student housing;
- inability to collect rent from student-tenants;
- vacancies at our properties or an inability to lease our properties on favorable terms;
- inability to finance property development and acquisitions on favorable terms;
- increased operating costs, including insurance premiums, utilities and real estate taxes;
- the need for capital expenditures at our properties;
- costs of complying with changes in governmental regulations;
- the relative illiquidity of real estate investments; and
- civil unrest, acts of God, including earthquakes, floods, hurricanes and other natural disasters, which may result in uninsured losses, and acts of war or terrorism.

In addition, periods of economic slowdown or recession, such as the one the global economy experienced from 2007 through 2011, rising interest rates or declining demand for real estate, or the public perception that any of these events may occur, could result in a general decline in occupancy rates and rental revenue or an increased incidence of defaults under our existing leases, which could impair the value of our properties or reduce our cash flow.

***Illiquidity of real estate investments could significantly impede our ability to sell our properties or otherwise respond to adverse changes in the performance of our properties, which could materially and adversely affect us.***

From time to time, we may determine that it is in our best interest to sell one or more of our properties. However, because real estate investments are relatively illiquid, we may encounter difficulty in finding a buyer in a timely manner should we desire to sell one of our properties, especially if market conditions are poor at such time. Selling real estate has been difficult recently, since the availability of credit has become more limited, and as lending standards have become more stringent. As a result, potential buyers have experienced difficulty in obtaining financing necessary to purchase a property. In addition, our properties are specifically designed for use as student housing, which could limit their marketability or affect their values for alternative uses. Consequently, should we desire to sell one or more of our properties, our ability to do so promptly or on terms that we deem to be acceptable may be limited, which could materially and adversely affect our cash flows, financial condition, results of operations and ability to pay distributions on our securities and would likely have a negative impact on the trading price of our securities.

We also may be required to expend funds to correct defects or to make improvements before a property can be sold. We cannot assure you that we will have funds available to correct any such defects or to make any such improvements. In connection with any future property acquisitions, we may agree to provisions that materially restrict our ability to sell the property for a period of time or impose other restrictions, such as a limitation on the amount of debt that can be secured by or repaid with respect to such property.

In addition, our ability to sell properties may be limited by our need to avoid the 100% prohibited transactions tax that is imposed on gain recognized by a REIT from the sale of property characterized as dealer property. Any such limitation may cause us to incur losses, thereby reducing our cash flows. See "Federal Income Tax Risk Factors—The tax imposed on REITs engaging in 'prohibited transactions' may limit our ability to engage in transactions which would be treated as sales for federal income tax purposes." These factors and any others that would impede our ability to respond to adverse changes in the performance of any of our properties or a need for liquidity could materially and adversely affect our cash flows, financial condition, results of operations and ability to pay distributions on our securities and would likely have a negative impact on the trading price of our securities.

***We could incur significant costs related to government regulation and private litigation over environmental matters, which could materially and adversely affect our financial condition and results of operations.***

Under various environmental laws, including the Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA"), a current or previous owner or operator of real estate may be liable for contamination resulting from the release or threatened release of hazardous or toxic substances or petroleum at that property. Additionally, an entity that arranges for the disposal or treatment of a hazardous or toxic substance or petroleum at another property may be held jointly and severally liable for the cost of investigating and cleaning up such property or other affected property. Such parties are known as potentially responsible parties ("PRPs"). These environmental laws often impose liability regardless of whether the PRP knew of, or was responsible for, the presence of the contaminants, and the costs of any required investigation or cleanup of these substances can be substantial. PRPs may also be liable to parties who have claims for contribution in connection with any such contamination, such as other PRPs or state and federal governmental agencies. The liability is generally not limited under such laws and therefore could easily exceed the property's value and the assets of the liable party.

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The presence of contamination, hazardous materials or environmental issues, or the failure to remediate such conditions, at a property may expose us to third-party liability for personal injury or property damage, remediation costs or adversely affect our ability to sell, lease or develop the property or to borrow using the property as collateral, which could materially and adversely affect our financial condition and results of operations.

Environmental laws also impose ongoing compliance requirements on owners and operators of real estate. Environmental laws potentially affecting us address a wide variety of matters, including, but not limited to, asbestos-containing building materials ("ACBMs"), storage tanks, storm water and wastewater discharges, lead-based paint, radon, wetlands and hazardous wastes. Failure to comply with these laws could result in fines and penalties or expose us to third-party liability, which could materially and adversely affect us. Some of our properties may have conditions that are subject to these requirements and we could be liable for such fines or penalties or could be liable to third parties.

***The conditions at some of our properties may expose us to liability and remediation costs related to environmental matters, which could materially and adversely affect us.***

Certain of our properties may contain, or may have contained, ACBMs. Environmental laws require that ACBMs be properly managed and maintained, and regulators may impose fines and penalties on building owners and operators for failure to comply with these requirements. Also, some of our properties may contain, or may have contained, or are adjacent to or near other properties that may contain or may have contained storage tanks for the storage of petroleum products or other hazardous or toxic substances. Any of these conditions create the potential for the release of these contaminants. Third parties may be permitted by law to seek recovery from owners or operators for personal injury or property damage arising from such tanks. Additionally, third parties may be permitted by law to seek recovery from owners or operators for personal injury or property damage associated with exposure to these or other contaminants that may be present on, at or under the properties. Furthermore, some of our properties include regulated wetlands on undeveloped portions of such properties and mitigated wetlands on or near our properties, the existence of which can delay or impede development or require costs to be incurred to mitigate the impact of any disturbance. Absent appropriate permits, we can be held responsible for restoring wetlands and be required to pay fines and penalties, which could materially and adversely affect our cash flows, financial condition, results of operations and ability to pay distributions on our securities.

Over the past several years there have been an increasing number of lawsuits against owners and operators of properties alleging personal injury and property damage caused by the presence of mold in real estate. Mold growth can occur when excessive moisture accumulates in buildings or on building materials, particularly if the moisture problem remains undiscovered or is not addressed over a period of time. Concern about indoor exposure to mold has been increasing as some molds have been shown to produce airborne toxins and irritants and exposure to these and other types of molds may lead to adverse health effects and symptoms, including allergic or other reactions. Some of our properties may contain microbial matter such as mold and mildew. The presence of significant mold at any of our properties could require us to undertake a costly remediation program to contain or remove the mold from the affected property and could expose us to liability from student-tenants, employees and others if property damage or health concerns arise, which could materially and adversely affect our cash flows, financial condition, results of operations and ability to pay distributions on our securities.

If any of our properties are not properly connected to a water or sewer system, or if the integrity of such systems is breached, microbial matter or other contamination can develop. If this were to occur, we could incur significant remedial costs and we could also be subject to private damage claims and awards, which could be material. If we become subject to claims in this regard, it could materially and adversely affect our business and our insurability for such matters in the future.

Independent environmental consultants have conducted Phase I environmental site assessments on all of our properties. These Phase I environmental site assessments are intended to evaluate information regarding the environmental condition of the surveyed property and surrounding properties based generally on visual observations, interviews and the review of publicly available information. These assessments do not typically take into account all environmental issues including, but not limited to, testing of soil or groundwater, a comprehensive asbestos survey or an invasive inspection for the presence of lead-based paint, radon or mold contamination. As a result, these assessments may have failed to reveal all environmental conditions, liabilities, or other compliance issues affecting our properties. Material environmental conditions, liabilities, or compliance issues may have arisen after the assessments were conducted or may arise in the future.

In addition, future laws, ordinances or regulations may impose material additional environmental liabilities. We cannot assure you that the cost of future environmental compliance or remedial measures will not affect our ability to make distributions to our stockholders or that such costs or other remedial measures will not be material to us.

***We may incur significant costs complying with the Americans with Disabilities Act, the Fair Housing Act and similar laws, which could materially and adversely affect us.***

Under the Americans with Disabilities Act (“ADA”), all public accommodations must meet various federal requirements related to access and use by disabled persons. Compliance with the ADA’s requirements may require modifications to our properties, such as the removal of access barriers or restrict our ability to renovate or develop our properties in the manner we desire. Additional federal, state and local laws may also require us to make similar modifications or impose similar restrictions on us. For example, the Fair Housing Act (“FHA”) requires apartment properties first occupied after March 13, 1990 to be accessible to the handicapped.

We have not conducted an audit or investigation of all of our properties to determine our compliance with present requirements of the ADA, FHA or any similar laws. Noncompliance with any of these laws could result in us incurring significant costs to make substantial modifications to our properties or in the imposition of fines or an award or damages to private litigants. We cannot predict the ultimate amount of the cost of compliance with the ADA, FHA or other legislation. If we incur substantial costs to comply with the ADA, FHA or any other legislation, our results of operations, financial condition and our ability to make distributions on our securities could be materially and adversely affected.

***We may incur significant costs complying with other regulatory requirements, which could materially and adversely affect us.***

Our properties are subject to various federal, state and local regulatory requirements, such as state and local fire and life safety requirements. If we fail to comply with these various requirements, we might incur governmental fines or private damage awards. Furthermore, existing requirements could change and require us to make significant unanticipated expenditures, which could materially and adversely affect our results of operations or financial condition and our ability to make distributions on our securities.

***Uninsured losses or losses in excess of insured limits could materially and adversely affect us.***

We carry comprehensive liability, fire, extended coverage, terrorism and rental loss insurance covering all of the properties in our portfolio. Our insurance includes coverage for earthquake damage to properties located in seismically active areas, windstorm damage to properties exposed to hurricanes, and terrorism insurance on all of our properties. Our insurance policies are subject to coverage limits and applicable deductibles, and if we suffer a substantial loss, our coverage may be insufficient. All insurance policies are also subject to coverage extensions that we believe are typical for our business. We do not carry insurance for generally uninsured losses such as loss from riots or other acts of God.

In the event we experience a loss which is uninsured or which exceeds our policy limits, we could lose the capital invested in the damaged property as well as the anticipated future cash flows from such property. In addition, we might nevertheless remain obligated for any mortgage debt or other financial obligations related to the property. Inflation, changes in building codes and ordinances, environmental considerations and other factors might also keep us from using insurance proceeds to replace or renovate a property after it has been damaged or destroyed. Under such circumstances, the insurance proceeds we receive might be inadequate to restore our economic position with respect to the damaged or destroyed property. Furthermore, in the event of a substantial loss at one or more of our properties that is covered by one or more policies, the remaining insurance under these policies, if any, could be insufficient to adequately insure our other properties. In such event, securing additional insurance policies, if possible, could be significantly more expensive than our current policies. Any loss of these types may materially and adversely affect our business, financial condition and results of operations.

***Future terrorist attacks in the United States or an increase in incidents of violence on college campuses could reduce the demand for, and the value of, our properties, which could materially and adversely affect us.***

Future terrorist attacks in the United States, such as the attacks that occurred in New York and Washington, D.C. on September 11, 2001, and acts of war, or threats of the same, could reduce the demand for, and the value of, our properties. Any such event in any of the markets in which our properties are located would make it difficult for us to maintain the affected property’s occupancy or to re-lease the property at rates equal to or above historical rates, which could materially and adversely affect our results of operations and the market price of our capital stock and could also materially adversely affect our ability to make distributions on our securities.

Incidents of violence on college campuses could pose similar problems, if such an incident were to occur on a college campus in one of our markets. Such an event in any of our markets could not only adversely affect our occupancy rates, but would also likely lead to increased operating expenses for such properties due to increased security costs, which would likely be necessary to reassure our student-tenants in the wake of such an incident. Any such increase in operating expenses may have a material adverse effect on the results of operations of the affected property.

In addition, terrorist attacks or violent incidents could directly impact the value of our properties through damage, destruction or loss and the availability of insurance for such acts may be limited or prohibitively expensive. If we receive casualty proceeds, we may not be able to reinvest such proceeds profitably or at all, and we may be forced to recognize taxable gain on the affected property, which could materially and adversely affect our business, financial condition and results of operations.

**Risks Related to Our Company and Structure**

***Provisions of our charter allow our board of directors to authorize the issuance of additional securities, which may limit the ability of a third party to acquire control of us through a transaction that our stockholders believe to be in their best interest.***

Our charter authorizes our board of directors to issue up to 500,000,000 shares of common stock and up to 50,000,000 shares of preferred stock. In addition, subject to the rights of holders of Series A Preferred Stock to approve the classification or issuance of any class or series of stock ranking senior to the Series A Preferred Stock, our board of directors may, without stockholder approval, amend our charter to increase the aggregate number of our shares or the number of shares of any class or series that we have the authority to issue and to classify or reclassify any unissued common stock or preferred stock and to set the preferences, rights and other terms of the classified or reclassified stock. As a result, our board of directors may authorize the issuance of additional stock or establish a series of common or preferred stock that may have the effect of delaying, deferring or preventing a change in control of us, including through a transaction at a premium over the market price of our securities, even if our stockholders believe that a change in control through such a transaction is in their best interest.

***Provisions of Maryland law may limit the ability of a third party to acquire control of us, which, in turn, may negatively affect our stockholders' ability to realize a premium over the market price of our securities.***

Certain provisions of the Maryland General Corporation Law (the "MGCL") may have the effect of inhibiting a third party from making a proposal to acquire us or of impeding a change in control under circumstances that otherwise could provide our stockholders with the opportunity to realize a premium over the market price of our securities, including:

- *The Maryland Business Combination Act*, which, subject to limitations, prohibits certain business combinations between us and an "interested stockholder" (defined generally as any person who beneficially owns 10% or more of the voting power of our voting capital stock) or an affiliate of any interested stockholder for five years after the most recent date on which the stockholder becomes an interested stockholder, and thereafter imposes special appraisal rights and special stockholder voting requirements on these combinations; and

- *The Maryland Control Share Acquisition Act*, which provides that our "control shares" (defined as shares which, when aggregated with other shares controlled by the stockholder, entitle the stockholder to exercise one of three increasing ranges of voting power in electing directors) acquired in a "control share acquisition" (defined as the direct or indirect acquisition of ownership or control of "control shares") have no voting rights except to the extent approved by our stockholders by the affirmative vote of at least two-thirds of all the votes entitled to be cast on the matter, excluding all interested shares.

By resolution of our board of directors, we have opted out of the business combination provisions of the MGCL and provided that any business combination between us and any other person is exempt from the business combination provisions of the MGCL, provided that the business combination is first approved by our board of directors (including a majority of directors who are not affiliates or associates of such persons). Pursuant to a provision in our bylaws, we have opted out of the control share provisions of the MGCL. However, our board of directors may by resolution elect to opt into the business combination provisions of the MGCL and we may, by amendment to our bylaws, opt into the control share provisions of the MGCL in the future.

Additionally, Title 3, Subtitle 8 of the MGCL permits our board of directors, without stockholder approval and regardless of what is currently provided in our charter or bylaws, to implement certain takeover defenses, such as a classified board, some of which we do not yet have. These provisions may have the effect of inhibiting a third party from making an acquisition proposal for us or of delaying, deferring or preventing a change in control of us that otherwise could provide our stockholders with the opportunity to realize a premium over the market price of our securities.

***The ownership limitations in our charter may restrict or prevent you from engaging in certain transfers of our securities, which may delay or prevent a change in control of us that our stockholders believe to be in their best interest.***

In order for us to qualify as a REIT, no more than 50% in value of the outstanding shares of our capital stock may be owned, directly or indirectly, by five or fewer individuals (as defined in the federal income tax laws to include various kinds of entities) during the last half of any taxable year. Attribution rules in the Internal Revenue Code determine if any individual or entity actually or constructively owns our capital stock under this requirement. Additionally, at least 100 persons must beneficially own shares of our capital stock during at least 335 days of each taxable year. To assist us in qualifying as a REIT, our charter contains a stock ownership limit which provides that, subject to certain exceptions, no person or entity may beneficially own, or be deemed to own by virtue of the applicable constructive ownership provisions of the Internal Revenue Code, more than 9.8% by vote or value, whichever is more restrictive, of either our outstanding common stock or our outstanding capital stock in the aggregate. In addition, the Series A Preferred Stock articles supplementary provide generally that no person may own, or be deemed to own by virtue of the attribution provisions of the Internal Revenue Code, more than 9.8% in value or in number of shares, whichever is more restrictive, of our outstanding Series A Preferred Stock. Generally, any of our shares of capital stock owned by affiliated owners will be added together for purposes of the stock ownership limits.

If anyone transfers shares of our stock in a way that would violate the stock ownership limits or prevent us from qualifying as a REIT under the federal income tax laws, those shares instead will be transferred to a trust for the benefit of a charitable beneficiary and will be either redeemed by us or sold to a person whose ownership of the shares will not violate the stock ownership limits or we will consider the transfer to be null and void from the outset, and the intended transferee of those shares will be deemed never to have owned the shares. Anyone who acquires securities in violation of the stock ownership limits or the other restrictions on transfer in our charter bears the risk of suffering a financial loss when the shares are redeemed or sold if their market price falls between the date of purchase and the date of redemption or sale.

The constructive ownership rules under the Internal Revenue Code are complex and may cause stock owned actually or constructively by a group of related individuals or entities to be owned constructively by one individual or entity. As a result, the acquisition of less than 9.8% of our stock (or the acquisition of an interest in an entity that owns, actually or constructively, our stock) by an individual or entity, could nevertheless cause that individual or entity, or another individual or entity, to own constructively in excess of 9.8% of our outstanding stock and therefore would subject the individual or entity to the stock ownership limits. However, under certain circumstances, our charter provides that our board of directors shall make an exception to this limitation if our board determines that such exception will not jeopardize our tax status as a REIT.

In addition, the stock ownership limits and the other restrictions on transfer in our charter may have the effect of delaying, deferring or preventing a third party from acquiring control of us, whether such a transaction involved a premium price for our securities or otherwise was in the best interest of our stockholders.

***Our rights and the rights of our stockholders to take action against our directors and officers are limited, which could limit the recourse available in the event actions are taken that are not in the best interest of our stockholders.***

Maryland law provides that a director has no liability in connection with the director's management of the business and affairs of a corporation if he or she performs his or her duties in good faith, in a manner he or she reasonably believes to be in the best interests of the corporation and with the care that an ordinarily prudent person in a like position would use under similar circumstances. In addition, our charter exculpates our directors and officers from liability to us and our stockholders for money damages except for liability resulting from actual receipt of an improper benefit in money, property or services or active and deliberate dishonesty established by a final judgment and which is material to the cause of action. Our charter authorizes us to indemnify our directors and officers for actions taken by them in those capacities to the maximum extent permitted by Maryland law. Our bylaws require us to indemnify each director or officer, to the maximum extent permitted by Maryland law, in the defense of any proceeding to which he or she is made, or threatened to be made, a party by reason of his or her service to us. In addition, we may be obligated to fund the defense costs incurred by our directors and officers. As a result, we and our stockholders may have more limited rights against our directors and officers, which could limit the recourse available in the event actions are taken that are not in our stockholders' best interest.

***Our charter contains provisions that make removal of our directors difficult, which could make it difficult for our stockholders to effect changes to our management that our stockholders believe to be in their best interest.***

Our charter provides that a director may be removed only for cause (as defined in our charter) and then only by the affirmative vote of at least two-thirds of the votes entitled to be cast generally in the election of directors. Our charter also provides that vacancies on our board of directors may be filled only by a majority of the remaining directors in office, even if less than a quorum. These requirements prevent stockholders from removing directors except for cause and with a substantial affirmative vote and from replacing directors with their own nominees. As a result, a change in our management that our stockholders believe is in their best interest may be delayed, deferred or prevented.

***Our board of directors has approved very broad investment guidelines for us and does not review or approve each investment decision made by our management team.***

Our management team is authorized to follow broad investment guidelines and, therefore, has great latitude in determining which investments are proper for us, as well as in making the individual investment decisions. Our management team may make investments with lower rates of return than those anticipated under current market conditions and/or may make investments with greater risks to achieve those anticipated returns.

***The ability of our board of directors to change some of our policies without the consent of our stockholders may lead to the adoption of policies that are not in the best interest of our stockholders.***