AMERICAN CAMPUS COMMUNITIES INC
Form 10-Q
May 04, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

x Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended March 31, 2009.

o Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the Transition Period From ______________________ to __________________________.

Commission file number 001-32265

AMERICAN CAMPUS COMMUNITIES, INC.
(Exact name of registrant as specified in its charter)

Maryland (State or Other Jurisdiction of Incorporation or Organization)	76-0753089 (IRS Employer Identification No.)
805 Las Cimas Parkway, Suite 400 Austin, TX (Address of Principal Executive Offices)	78746 (Zip Code)

(512) 732-1000
Registrant's telephone number, including area code

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

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 o No o

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

Large accelerated filer x		Accelerated Filer o
Non-accelerated filer o	(Do not check if a smaller	Smaller reporting

reporting company) company o

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

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

There were 42,405,493 shares of American Campus Communities, Inc.'s common stock with a par value of $0.01 per share outstanding as of the close of business on May 1, 2009.

FORM 10-Q
FOR THE QUARTER ENDED MARCH 31, 2009

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AMERICAN CAMPUS COMMUNITIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share data)

	March 31, 2009 (Unaudited)	December 31, 2008
Assets		
Investments in real estate:		
Wholly-owned properties, net	$ 2,008,723	$ 1,986,833
On-campus participating properties, net	68,250	69,302
Investments in real estate, net	2,076,973	2,056,135
Cash and cash equivalents	26,196	25,600
Restricted cash	29,680	32,558
Student contracts receivable, net	4,113	5,185
Other assets	52,975	64,431
Total assets	$ 2,189,937	$ 2,183,909
Liabilities and equity		
Liabilities:		
Secured debt	$ 1,132,751	$ 1,162,221
Secured term loan	100,000	100,000
Unsecured revolving credit facility	78,300	14,700
Accounts payable and accrued expenses	26,465	35,440
Other liabilities	52,209	56,052
Total liabilities	1,389,725	1,368,413
Redeemable noncontrolling interests	24,571	26,286
Equity:		
American Campus Communities, Inc. stockholders' equity: Common stock, $.01 par value, 800,000,000 shares authorized, 42,405,493 and 42,354,283 shares issued and outstanding at March 31, 2009 and December 31, 2008, respectively	423	423
Additional paid in capital	903,265	901,641
Accumulated earnings and dividends	(126,117)	(111,828)
Accumulated comprehensive loss	(5,900)	(5,117)
Total American Campus Communities, Inc. stockholders' equity	771,671	785,119
Noncontrolling interests	3,970	4,091
Total equity	775,641	789,210
Total liabilities and equity	$ 2,189,937	$ 2,183,909

See accompanying notes to consolidated financial statements.

AMERICAN CAMPUS COMMUNITIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited, in thousands, except share and per share data)

	Three Months Ended March 31, 2009	Three Months Ended March 31, 2008
Revenues:		
Wholly-owned properties	$ 67,332	$ 31,681
On-campus participating properties	6,874	6,744
Third party development services	1,016	1,620
Third party development services – on-campus participating properties	36	36
Third party management services	2,242	922
Resident services	240	438
Total revenues	77,740	41,441
Operating expenses:		
Wholly-owned properties	31,486	13,885
On-campus participating properties	2,030	2,295
Third party development and management services	2,977	2,108
General and administrative	2,748	2,134
Depreciation and amortization	20,102	8,029
Ground/facility lease	552	359
Total operating expenses	59,895	28,810
Operating income	17,845	12,631
Nonoperating income and (expenses):		
Interest income	40	162
Interest expense	(15,886)	(6,979)
Amortization of deferred financing costs	(801)	(311)
Loss from unconsolidated joint ventures	(554)	(126)
Total nonoperating expenses	(17,201)	(7,254)
Income before income taxes and redeemable noncontrolling interests	644	5,377
Income tax provision	(135)	(60)
Redeemable noncontrolling interests share of income (Note 6)	(54)	(306)
Net income	455	5,011
Net income attributable to noncontrolling interests (Note 6)	(178)	(102)
Net income attributable to American Campus Communities, Inc. and Subsidiaries	$ 277	$ 4,909
Income per share – basic:		
Net income per share attributable to American Campus Communities, Inc. and Subsidiaries	$ 0.01	$ 0.18
Income per share – diluted:		
Net income per share attributable to American Campus Communities, Inc. and Subsidiaries	$ 0.01	$ 0.18

Weighted-average common shares outstanding:				
Basic		42,377,638		27,331,896
Diluted		44,031,602		29,161,145
Distributions declared per common share	$	0.3375	$	0.3375

See accompanying notes to consolidated financial statements.

AMERICAN CAMPUS COMMUNITIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(unaudited, in thousands, except share data)

	Common Shares	Par Value of Common Shares	Additional Paid in Capital	Accumulated Earnings and Distributions	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interests	Total
Equity, December 31, 2008	42,354,283	$ 423	$ 901,641	$ (111,828)	$ (5,117)	$ 4,091	$ 789,210
Amortization of restricted stock awards	-	-	583	-	-	-	583
Vesting of restricted stock awards	50,210	-	(313)	-	-	-	(313)
Distributions to common and restricted stockholders	-	-	-	(14,566)	-	-	(14,566)
Distributions to joint venture partners	-	-	-	-	-	(299)	(299)
Conversion of common units to common stock	1,000	-	12	-	-	-	12
Reclassification of noncontrolling interests	-	-	1,342	-	-	-	1,342
Comprehensive loss:							
Change in fair value of interest rate swaps	-	-	-	-	(783)	-	(783)
Net income	-	-	-	277	-	178	455
Total comprehensive loss	-	-	-	-	-	-	(328)
Equity, March 31, 2009	42,405,493	$ 423	$ 903,265	$ (126,117)	$ (5,900)	$ 3,970	$ 775,641

See accompanying notes to consolidated financial statement

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AMERICAN CAMPUS COMMUNITIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited, in thousands)

	Three Months Ended March 31, 2009	Three Months Ended March 31, 2008
Operating activities		
Net income	$ 455	$ 5,011
Adjustments to reconcile net income to net cash provided by operating activities:		
Redeemable noncontrolling interests share of income	54	306
Depreciation and amortization	20,102	8,029
Amortization of deferred financing costs and debt premiums/discounts	739	(70)
Share-based compensation	583	411
Loss from unconsolidated joint ventures	554	126
Amortization of gain on interest rate swap termination	-	(60)
Income tax provision	135	60
Changes in operating assets and liabilities:		
Restricted cash	2,878	(1,609)
Student contracts receivable, net	1,072	1,016
Other assets	5,755	(906)
Accounts payable and accrued expenses	(9,423)	(2,918)
Other liabilities	(3,001)	(1,596)
Net cash provided by operating activities	19,903	7,800
Investing activities		
Cash paid for property acquisitions	-	(11,285)
Cash paid for land purchase	-	(2,998)
Investments in wholly-owned properties	(35,813)	(35,322)
Investments in on-campus participating properties	(38)	(52)
Purchase of corporate furniture, fixtures and equipment	(146)	(190)
Net cash used in investing activities	(35,997)	(49,847)
Financing activities		
Revolving credit facility, net	63,600	27,000
Proceeds from construction loans	3,028	29,418
Pay-off of mortgage loans	(29,831)	-
Principal payments on debt	(2,603)	(1,597)
Change in construction accounts payable	(2,312)	(1,774)
Debt issuance and assumption costs	-	(93)
Distributions to common and restricted stockholders	(14,477)	(9,334)
Distributions to noncontrolling partners	(715)	(607)
Net cash provided by financing activities	16,690	43,013
Net change in cash and cash equivalents	596	966
Cash and cash equivalents at beginning of period	25,600	12,073
Cash and cash equivalents at end of period	$ 26,196	$ 13,039

Supplemental disclosure of non-cash investing and financing activities				
Loans assumed in connection with property acquisitions	$	-	$	(6,970)
Change in fair value of derivative instruments, net	$	(783)	$	(1,287)
Supplemental disclosure of cash flow information				
Interest paid	$	17,116	$	8,000

See accompanying notes to consolidated financial statements.

AMERICAN CAMPUS COMMUNITIES, INC.AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization and Description of Business

American Campus Communities, Inc. (the "Company") is a real estate investment trust ("REIT") that was incorporated on March 9, 2004 and commenced operations effective with the completion of an initial public offering ("IPO") on August 17, 2004. Through the Company's controlling interest in American Campus Communities Operating Partnership LP (the "Operating Partnership"), the Company is one of the largest owners, managers and developers of high quality student housing properties in the United States in terms of beds owned and under management. The Company is a fully integrated, self-managed and self-administered equity REIT with expertise in the acquisition, design, financing, development, construction management, leasing and management of student housing properties.

As of March 31, 2009 the Company's property portfolio contained 86 student housing properties with approximately 52,800 beds and approximately 17,200 apartment units, including 40 properties containing approximately 23,500 beds and approximately 7,500 units added as a result of the Company's acquisition on June 11, 2008 of the student housing business of GMH Communities Trust ("GMH"), as more fully discussed in Note 3 herein. The Company's property portfolio consisted of 80 owned off-campus properties that are in close proximity to colleges and universities, two American Campus Equity ("ACETM") properties operated under ground/facility leases with a related university system and four on-campus participating properties operated under ground/facility leases with the related university systems. As of March 31, 2009, the Company also owned a noncontrolling interest in two joint ventures that owned an aggregate of 21 student housing properties with approximately 12,100 beds in approximately 3,600 units. The Company's communities contain modern housing units and are supported by a resident assistant system and other student-oriented programming, with many offering resort-style amenities.

Through the Company's taxable REIT subsidiaries ("TRS"), it also provides construction management and development services, primarily for student housing properties owned by colleges and universities, charitable foundations, and others. As of March 31, 2009, the Company provided third-party management and leasing services for 32 properties (five of which the Company served as the third-party developer and construction manager) that represented approximately 23,800 beds in approximately 8,900 units. Third-party management and leasing services are typically provided pursuant to multi-year management contracts that have initial terms that range from one to five years. As of March 31, 2009, the Company's total owned, joint venture and third-party managed portfolio included 139 properties with approximately 88,700 beds in approximately 29,700 units.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") and include the financial position, results of operations and cash flows of the Company, the Operating Partnership and subsidiaries of the Operating Partnership, including joint ventures in which the Company has a controlling interest. Third-party equity interests in the Operating Partnership and consolidated joint ventures are reflected as noncontrolling interests in the consolidated financial statements. The Company also has a noncontrolling interest in three unconsolidated joint ventures, which are accounted for under the equity method. All significant intercompany amounts have been eliminated. All dollar amounts in the tables herein, except share and per share amounts, are stated in thousands unless otherwise indicated. Certain prior period amounts have been reclassified to conform to the current period presentation, including changes resulting from the adoption of SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51" ("SFAS No. 160").

New Accounting Pronouncements

In December 2007, the FASB issued SFAS No. 141(R), "Business Combinations," which replaces SFAS No. 141, "Business Combinations." SFAS No. 141(R) applies to all transactions or events in which an entity obtains control of one or more businesses. This standard expands the use of fair value principles as well as the treatment of pre-acquisition costs. SFAS No. 141(R) applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Adoption on January 1, 2009 impacts the Company’s accounting for future acquisitions and related transaction costs.

AMERICAN CAMPUS COMMUNITIES, INC.AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In December 2007, the FASB issued SFAS No. 160 which establishes accounting and reporting standards for the noncontrolling interest in a subsidiary (previously referred to as minority interests). SFAS No. 160 also requires that a retained noncontrolling interest upon the deconsolidation of a subsidiary be initially measured at its fair value. The Company adopted SFAS No. 160 effective January 1, 2009, which required retroactive adoption of the presentation and disclosure requirements for existing minority interests. See Note 6 herein for a more detailed discussion of SFAS No. 160 and its effects on the Company's consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities" ("SFAS No. 161"). SFAS No. 161 amends and expands the disclosure requirements of SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS No. 133"), with the intent to provide users of financial statements with an enhanced understanding of: (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under SFAS No. 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. SFAS No. 161 requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about the fair value of and gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative instruments. The Company adopted SFAS No. 161 effective January 1, 2009. See Note 10 herein for an expanded discussion on derivative instruments and hedging activities.

In June 2008, the FASB issued FASB Staff Position ("FSP") 03-6-1, "Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities." FSP 03-6-1 affects entities which accrue non-returnable cash dividends on share-based payment awards during the awards' service period. The FASB concluded unvested share-based payment awards which are entitled to non-forfeitable cash dividends, whether paid or unpaid, are participating securities and are participants of undistributed earnings. Because the awards are considered participating securities, the issuer is required to apply the two-class method of computing basic and diluted earnings per share which involves separate computations for common shares and participating securities. As we do accrue and pay non-forfeitable cash dividends on unvested share-based payment awards, these types of awards are considered participating securities and will be included in our earnings per share calculation in future periods to the extent the Company has undistributed earnings.

Interim Financial Statements

The accompanying interim financial statements are unaudited, but have been prepared in accordance with GAAP for interim financial information and in conjunction with the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all disclosures required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting solely of normal recurring matters) necessary for a fair presentation of the financial statements for these interim periods have been included. Because of the seasonal nature of the Company's operations, the results of operations and cash flows for any interim period are not necessarily indicative of results for other interim periods or for the full year. These financial statements should be read in conjunction with the financial statements and the notes thereto included in the Company's Annual Report on Form 10-K for the year ended December, 31, 2008.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Investments in Real Estate

Investments in real estate are recorded at historical cost. Major improvements that extend the life of an asset are capitalized and depreciated over the remaining useful life of the asset. The cost of ordinary repairs and maintenance are charged to expense when incurred. Depreciation and amortization are recorded on a straight-line basis over the estimated useful lives of the assets as follows:

Buildings and improvements	7-40 years
Leasehold interest - on-campus participating properties	25-34 years (shorter of useful life or respective lease term)
Furniture, fixtures and equipment	3-7 years

The cost of buildings and improvements includes the purchase price of the property, including legal fees and acquisition costs. Project costs directly associated with the development and construction of an owned real estate project, which include interest, property taxes, and amortization of deferred finance costs, are capitalized as construction in progress. Upon completion of the project, costs are transferred into the applicable asset category and depreciation commences. Interest totaling approximately $1.0 million and $1.7 million was capitalized during the three months ended March 31, 2009 and 2008, respectively. Amortization of deferred financing costs totaling approximately $0.1 million was capitalized during the three months ended March 31, 2008.

AMERICAN CAMPUS COMMUNITIES, INC.AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Management assesses whether there has been an impairment in the value of the Company's investments in real estate whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Impairment is recognized when estimated expected future cash flows (undiscounted and before interest charges) are less than the carrying value of the property. The estimation of expected future net cash flows is inherently uncertain and relies on assumptions regarding current and future economics and market conditions. If such conditions change, then an adjustment to the carrying value of the Company's long-lived assets could occur in the future period in which the conditions change. To the extent that a property is impaired, the excess of the carrying amount of the property over its estimated fair value is charged to earnings. The Company believes that there were no impairments of the carrying values of its investments in real estate as of March 31, 2009.

The Company allocates the purchase price of acquired properties to net tangible and identified intangible assets based on relative fair values in accordance with SFAS No. 141(R). Fair value estimates are based on information obtained from a number of sources, including independent appraisals that may be obtained in connection with the acquisition or financing of the respective property and other market data. Information obtained about each property as a result of due diligence, marketing and leasing activities is also considered. The value of in-place leases is based on the difference between (i) the property valued with existing in-place leases adjusted to market rental rates and (ii) the property valued "as-if" vacant. As lease terms are typically one year or less, rates on in-place leases generally approximate market rental rates. Factors considered in the valuation of in-place leases include an estimate of the carrying costs during the expected lease-up period considering current market conditions, nature of the tenancy, and costs to execute similar leases. Carrying costs include estimates of lost rentals at market rates during the expected lease-up period, as well as marketing and other operating expenses. The value of in-place leases is amortized over the remaining initial term of the respective leases, generally less than one year. The purchase price of property acquisitions is not expected to be allocated to tenant relationships, considering the terms of the leases and the expected levels of renewals.

Long-Lived Assets–Held for Sale

Long-lived assets to be disposed of are classified as held for sale in the period in which all of the following criteria are met:

a. Management, having the authority to approve the action, commits to a plan to sell the asset

b. The asset is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets

c. An active program to locate a buyer and other actions required to complete the plan to sell the asset have been initiated

d. The sale of the asset is probable, and transfer of the asset is expected to qualify for recognition as a completed sale, within one year

e. The asset is being actively marketed for sale at a price that is reasonable in relation to its current fair value

f. Actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

Concurrent with this classification, the asset is recorded at the lower of cost or fair value, and depreciation ceases.

Owned On-campus Properties

The Company ("Lessee") entered into two 65-year ground and facility leases with a university system to finance, construct, and manage two student housing facilities. One property was completed in August 2008 and the other property is currently under construction with a scheduled completion date of August 2009. Both leases include the option to extend the lease term for two additional terms of ten years each. Under the terms of the leases, the lessor has title to the land and any improvements placed thereon. Pursuant to EITF No. 97-10: The Effect of Lessee Involvement in Asset Construction, the Company's involvement in construction requires the lessor's post construction ownership of the improvements to be treated as a sale with a subsequent leaseback by the Company. However, these sale-leaseback transactions do no qualify for sale-leaseback accounting based on guidance provided in SFAS No. 98, Accounting for Leases, because of the Company's continuing involvement in the constructed assets. As a result of the Company's continuing involvement, these leases are accounted for by the deposit method, in which the assets subject to the ground and facility leases are reflected at historical cost, less amortization and the financing obligations are reflected at the terms of the underlying financing.

AMERICAN CAMPUS COMMUNITIES, INC.AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

On-Campus Participating Properties

The Company enters into ground and facility leases with university systems and colleges to finance, construct, and manage student housing facilities. Under the terms of the leases, the lessor has title to the land and any improvements placed thereon. Each lease terminates upon final repayment of the construction related financing, the amortization period of which is contractually stipulated. Pursuant to EITF No. 97-10: The Effect of Lessee Involvement in Asset Construction, the Company's involvement in construction requires the lessor's post construction ownership of the improvements to be treated as a sale with a subsequent leaseback by the Company. The sale-leaseback transaction has been accounted for as a financing, and as a result, any fee earned during construction is deferred and recognized over the term of the lease. The resulting financing obligation is reflected at the terms of the underlying financing, i.e., interest is accrued at the contractual rates and principal reduces in accordance with the contractual principal repayment schedules.

The Company reflects these assets subject to ground/facility leases at historical cost, less amortization. Costs are amortized, and deferred fee revenue in excess of the cost of providing the service are recognized, over the lease term.

Intangible Assets

In connection with property acquisitions completed during 2008, the Company capitalized approximately $19.0 million, related to management's estimate of the fair value of the in-place leases assumed. These intangible assets are amortized on a straight-line basis over the average remaining term of the underlying leases. Amortization expense was approximately $4.1 million and $0.1 million for the three months ended March 31, 2009 and 2008, respectively. The Company also capitalized $1.5 million related to management's estimate of the fair value of third-party management contracts acquired from GMH in June 2008. These intangible assets are amortized on a straight-line basis over a period of three years. Amortization expense was approximately $0.1 million for the three months ended March 31, 2009. The amortizatio