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COMPANY INTERVIEW

TED W. ROLLINS

Campus Crest Communities, Inc. (CCG)

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Campus Crest Communities, Inc. (CCG)



TED W. ROLLINS is the Co-Chairman of the board of directors and the Chief Executive Officer of Campus Crest Communities, Inc. Together with Mike Hartnett, he founded Campus Crest Group in 2004. Mr. Rollins' core focus has been on operations and finance, while working together with Mr. Hartnett to source development opportunities and oversee construction. Prior to founding Campus Crest Group, Mr. Rollins and Mr. Hartnett cofounded and managed companies that successfully developed and operated service-enriched housing properties. Mr. Rollins is an Owner of MXT Capital, which is a holding company whose primary holding is its interest in Campus Crest Group. Mr. Rollins has also led several private real-

estate-focused investment funds. From 1998 through 2002, he was President of St. James Capital, an investment company focused on research-based structural land investment and niche income property opportunities. From 1991 to 1996, he served as President of The Balance Group, a private equity investment group focused on investing in and providing advisory services to small operating companies. Mr. Rollins founded The Balance Group in 1991. He was President of Rollins Investments, Inc., a real estate development and property management company with investments in retail, hospitality and mixed-use developments from 1988 to 1991, and Chief Financial Officer of RealtiCorp, a research-based land fund which focused on procurement of land for multisite users such as retail chains, restaurants and convenience stores from 1996 to 1998. He began his career at Drexel Burnham Lambert as a real estate investment banker in 1985. Mr. Rollins received his BSBA from The Citadel and his MBA from the Fuqua School of Business at Duke University.

SECTOR — REAL ESTATE

(AVG600) TWST: Please give us a brief history of Campus Crest Communities and an overview of the company and its operations today.

Mr. Rollins: We started about seven years ago. We basically looked at the student housing market, and it was apparent that there was a real need for our product — not only in primary markets, but even more so in secondary markets, which is our main focus. If you think about it in terms of any given state, you'll have a flagship campus — for example, in North Carolina, where we're based, UNC Chapel Hill is the flagship — but you'll also have a lot of great schools like UNC Wilmington, UNC Charlotte, UNC Asheville, these are all schools that need additional beds to continue to grow or to replace some obsolescent beds on campus. That really has been our primary target. We've spent seven years working on these markets, such as UNC secondary schools, or in states such as Texas, where we have a large number of properties.

If you look at the industry as a whole, there are two general comments that you can make. One is that there is a limited supply. It's constrained because of the lack of capital available, and it's constrained with state budgetary cuts over the last few years. But at the same time, there is a growing demand. There are more kids going to college. They're staying longer. And although the Baby Boom's children, the Echo Boom, growth is dipping slightly over the next few years, this attendance is still at record levels. In addition to that, if you look at total enrollment, growth is continuing

because the graduation rate at high schools is up. And of these graduates, a higher percentage are electing to attend college full time. In addition, foreign enrollment is on the rise. So those components are pretty compelling.

For us, it was important to create a company that could deliver a standard product in any market across the United States. And so what we did was we made a decision in the beginning to create a portfolio of companies that could execute this strategy and control the process from start to finish. We have five primary operating companies that support this effort: a development company, a general contracting company, a wholesale supply company, a property management company and an asset management company. We refer to all of this as a vertically integrated enterprise, and we've worked hard to build that over seven years. We believe this vertically integrated business model enables us to deliver properties economically while maintaining consistency in our building design, construction quality and amenity package. We continue to refine our processes and systems in an effort to reduce costs and improve quality.

If you look at us today, we have five solid portfolio companies that design, build, supply, manage and asset manage 33 properties with a robust pipeline of new projects. Six of the 33 are under construction, but they deliver next month, so I count them in the mix. Over the last seven years, we've grown at an average compound annual growth rate of about 93% a year. The next step for us is to continue to broaden our national footprint. We believe that there are 200 markets that fit our profile. It's about going out there

and providing great service and a great product to our residents and being a responsible member of the local communities in which we operate, and over time continuing to grow our footprint.

Furthermore, unlike a traditional apartment complex or a lot of student housing complexes, we focus on the life-skills portion of the residents' experience, so we tend to be a little more residence life and hospitality focused than most. And by that I mean we have an ongoing residence life program that we think makes a big difference. If you look at the students, they basically have the whole academic experience at school, but on the life skills and social infrastructure of the whole college experience piece, we use our programs to complement the academic experience and round out the entire experience. We have a proprietary program that we've developed over seven years called SCORES, which stands for Social, Cultural, Outreach, Recreational, Educational and Spiritual. And if you look at our properties, on any given day we're running those programs constantly. What that really does is it creates a social infrastructure for the students. We have happier residents who are more connected. They build their social infrastructure at our properties, and they overall have a better experience and stay longer. So it's a great thing that we do, and it has taken quite a bit to develop. We're fortunate enough to attract and retain some great people that work for us. Nowadays it's even more exciting, because many of the leaders and future leaders of our company are folks who started off with us as a resident.

TWST: I believe you recently added someone specifically to head development efforts. Would you introduce us to some of your key senior team members?

Mr. Rollins: We have a great leadership team. Mike Hartnett and I started the business together. He is our Chief Investment Officer, and he has a great feel for where to put the projects and how to develop them. On our finance side we have Donnie Bobbitt. Donnie is our CFO, and he is one of the best I've ever worked with. He is very focused, and he understands the operational side of the business as well. And so he is not just another accountant that's keeping score. He's very interactive with the senior leadership team. Then we have Earl Howell, who is our President and Chief Operating Officer. Earl is a seasoned operational veteran. He's done a great job. Then we have Rob Dann, who heads our property and development companies. Rob is one of the team members who just joined us. He came from CSM Lodging. At CSM he oversaw 2,500 employees and approximately 40 properties with a wide footprint, so he has extensive experience with all facets of development and property operations. And then we have Brian Sharpe, who heads our construction company and makes the magic happen out in the field. He has, year after year, designed and improved our projects. He is the reason we have such great projects — anything from the details of the design, to integrating with our operations team to make our projects better every year, to actually delivering the projects each year. He is very passionate about what he does.

In addition to these people, we have a great group at the VP level supporting us, as well as the hundreds of associates in the field that make things happen every day for our customers. With us it's all about the human element, and I can confidently say that our folks have gotten better and better every year. I would also tell you that our team and the guys I just told you about have a great

ability, capacity and focus on improving us each year. For our team, it's all about being the best we can be and focusing on getting better year in and year out.

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TWST: Please give us an example of a property that typifies a typical Campus Crest asset.

Mr. Rollins: We build a prototypical property, which means that market to market they are very similar. Our projects all have a common brand that's called The Grove. So typically you get the same experience property to property. We strive to keep the experience consistent. One, for example, would be our newest-generation project we have opening in Valdosta, Ga., this year. Our latest prototype properties have approximately 600 beds and a full complement of amenities to engage the residents in our residence life programs. These amenities range from fire pits to grilling areas to resort pools to sand volleyball and basketball courts. We have a clubhouse that has evolved over the last seven years to one of the better clubhouses in the industry, and it's designed with a lot of function in mind, creating spaces for our residents to study, socialize, exercise and engage in a variety of activities.

If you think about all that in one building, it's a fairly interesting exercise putting that program together. We've added things over the years such as tavern-style game rooms, which look like a tavern and really have a great feel to them. We've added coffee bistros with fireplaces and soft seating, kind of our version of a coffee shop. We have libraries where they can study with long wooden team tables, just like those you would find in an Ivy League library. Then we have state-of-the-art exercise rooms that are a great place to work out. All that's kind of in the center of activity hub, which centers around the clubhouse. As mentioned earlier, we also have a complete array of outdoor activity areas as well. For us, it's about creating spaces where the residents can socialize, enjoy themselves and build lasting friendships and memories of their college experience. Creating an environment that caters to the needs of today's college student helps us attract new residents and retain existing ones.

This year we are focusing on adding a sustainability component to our projects. This includes everything from the way we think at our corporate support center to the way we build our projects to the way we educate our residents on sustainability. And there are some really interesting things evolving out of this, such as alternative building designs, alternate power sources and new residence life programs. Stay tuned as we are just getting going here.

Our goal is to engage every resident and to get them active in both our community and the community at large. One way we accomplish this is through one of our more popular programs,

the GO Team — “GO” stands for “grove outreach.” We develop programs at each property for our residents and work with them to do different projects in their community, anything from Habitat for Humanity to blood drives to tutoring kids to hosting a day for the local orphanage to bring their kids to the pool. It’s really about teaching our residents the value of thinking about how they can help others and creating that outreach mentality. It’s a very popular program in our projects.

“We’re on our guidance, and we had a solid margin at the property level. And although our teams are never satisfied, this continues our trend of year-over-year improved performance.”

The biggest part of what we do is creating an unparalleled living experience for our residents. We have some of the nicest projects you have ever seen from a bricks-and-sticks perspective. Our properties feature some of the biggest bedrooms, bathrooms, closets and living rooms in the industry. All with our custom-made furnishing we design to have a Pottery Barn-like feel so it’s not just some institutional tube-steel stuff.

There are many great things about our projects from mom and dad’s perspective as well. They all rent by the bed, so there is no liability for your suite mates. They all include furniture and all utilities, including Internet/cable. So everything is one-stop shopping for mom and dad. If you send your son or daughter to live with us, it’s one check every month that’s all inclusive. You don’t have to lug stuff up stairs. And then while they are there, it’s a great way for them to create a social infrastructure with life skills and memories that will last them a lifetime. Parents can also feel good about security as all our communities are gated.

TWST: Would you say that’s one of your main competitive advantages? Is it offering all those amenities and that lifestyle?

Mr. Rollins: Yes, I think there are several competitive advantages. First, we have tremendous buying power and cost advantages from our internal general contractor and supply company that passes along value to our residents in the form of a better project. This also creates compelling value for our investors who experience a higher return on assets. Second, we have developed a place for our residents to grow and have a fuller college experience. Our residence life programs are first rate and they create the resident experience. Third, we have some of the best and brightest people that work for us in our various entities, and they work tirelessly to continually improve our company for all its stakeholders. I think all this creates a powerful combination.

TWST: I believe your most recent quarterly results you are able to discuss are from the first quarter. What are the key takeaways?

Mr. Rollins: If you look at it, we’re on our guidance, and we had a solid margin at the property level. And although our teams

are never satisfied, this continues our trend of year-over-year improved performance. The takeaways are that the team in place is focused on the properties and running the business, and I think they are doing what they said they were going to do. We are also focused on delivering our next group of development properties. As a company, we’re going to continue to focus on executing our plan, try to find ways to lower costs while improving operations and work to create long-term value for our shareholders. Our team is very excited about our business and its long-term prospects.

TWST: There was a net loss, although it was lower than the prior year’s comparable period. Would you discuss that and when you think you’ll turn the corner into profits?

Mr. Rollins: That’s interesting because it really gets into talking about our REIT structure. Keep in mind, REITs make a tremendous amount of cash flow from operations, FFO, and the reason there’s a loss for a REIT is because there is a large amount of depreciation coming from all of the buildings we own. This depreciation is noncash, but creates the loss on a GAAP basis. That is why as a REIT, we’re measured on what our FFO or cash flow are versus our earnings. So if you look at our first-quarter FFO, we made \$5.1 million. We have great positive cash flow. We pay an annual dividend, which produces a yield of about 5% for our shareholders. This is in the higher end of the range for what most companies pay. In addition to that, we’re lowly leveraged. We only have somewhere on the order of 30% leverage. As a REIT, we’re managed by — and the Street watches — our FFO. So that’s really the key number, and we have solid FFO and our balance sheet is in great shape.

TWST: The next academic year is around the corner. How is leasing looking for this academic year, and what’s your outlook for the company overall for the rest of the calendar year?

Mr. Rollins: As of the beginning of June, our leasing on our operating properties was ahead of last year by more than 10 percentage points. And that’s attributable to our teams in the field, our improved systems and getting an earlier start. Also, if you think about the average age of our properties, it’s 2.5 years. So out of our portfolio there are a meaningful percentage of them still stabilizing. So as they continue to stabilize, you should get higher occupancies in the year-over-year numbers across the portfolio. Looking ahead, I can tell you for us it’s just all about continuing to grow our human capital, our portfolio and increasing our FFO. Our teams are focused on that.

TWST: Would talk a bit about your development pipeline and your joint venture with Harrison Street?

Mr. Rollins: We have two types of projects, the ones we wholly own and then there are the ones that we joint venture with Harrison Street. The reason we joint venture with Harrison Street is to manage our balance sheet risk. We maintain a development pipeline of approximately 80 potential projects. Although this may sound like a big number, it actually works well with our program, so allow me to explain. At any given time, we’re working on roughly 80 given markets. And for us, it’s important to note we typically do not buy land that’s on the market. We’ll look at the market, we’ll understand the market, and then we’ll find the land that best fits what we want to do — 90% to 95% of the time, that property is not for sale, so we spend a lot of time speaking to owners of the land and working in the market. So out of that 80, there are roughly 50 markets that we’re still trying to get the right piece of

land under control in. Then there are 20 opportunities where we are finalizing the terms of our agreement and beginning diligence and our entitlement process.

Some markets may take two years to get entitled, some may take one year, some may take three years. But that 20 is basically on average what we have working, going under contract, through diligence or in entitlement. So you've got 50, 20, and the remaining 10 are ones that are generally ready to build in any given year. These are the properties that are going through their final stages of entitlement and getting their permits. So it's a pretty robust pipeline we've built over seven years. Mike or I and our senior leadership team have personally been in every one of these markets. This process is managed by a great team of people. We have made some recent hires to round this out and promoted a great person from within. I like to call them our development dream team. They are really hard workers, have great experience and are very focused. They just keep making it better every day.

TWST: What criteria do you look for when selecting that land? Proximity to campus must be number one.

Mr. Rollins: Yes, it is. We do quite a bit of research on the market. Typically we'll underwrite the market, and then we'll underwrite the specific piece of land. In any given transaction, we're underwriting a couple of parts of the market — the demand generator, which is the school, obviously, and then the competitive set within the market — and then the land specific. We have a very thorough due diligence checklist that goes through everything, from water/sewer availability, tap fees, water rights if you're out West, future tax implications, cost to build, climate zone, what's the fall in the land, where is the sewer invert, everything from soup to nuts. And most of that we've built up over a career. We've done this for 25 years in different industries. Basically, every time you make a mistake you write it down so you don't make it again, and so we've developed a checklist that's pretty comprehensive.

The team works very diligently on different levels of underwriting. When we're underwriting the school, we're meeting with the school's administration, we're meeting with the school's professors, we're meeting with the athletic department, we're shopping at the bookstore. We are pretty grassroots and hands on, and I think that makes a difference. All of our companies — whether it's development, construction, property management — share that same mentality. In this office here, which we call the support center, we realize

that our operations are centered around supporting our teams in the field. Our culture here has always been very field oriented. So if you think about us, we're out every week at our properties, both those in operation as well as those under construction, as well as our future projects. I would say we spend at least 200 days a year out in the field, and that's the senior leadership. We spend a lot of time, and that's encouraging. We want that hands-on approach.

TWST: What led to the company's decision to go public late last year? Was it to help finance the growth you have in mind?

Mr. Rollins: If you look at many companies' life cycles and growth, it's important to have the right capital structure given the context of the market. And if you look at the overall capital markets in the real estate business, it's pretty compelling that you want to have a lower leverage business as you grow over time. As we grew, first we started with friends and family equity, then we went to institutional equity with Harrison Street, and then the next natural step in our evolution was to go public and lower our leverage even more. As we grew our business and had new and increasing capital demands, it became apparent that what we really wanted to do was raise enough equity to lower our debt down to a low percentage. That gives us a strong balance sheet, which is a competitive advantage on the banking side of things. This allows us to continue to grow. We need to have efficient access to capital, and that's what this provides.

TWST: Is there anything else that you'd like to add about the company?

Mr. Rollins: I would just say the driving force here is our people, and they are energized. It's all about growing and being responsible as we grow. For us, it's been a great seven-year run, and we're looking forward to the next seven years and beyond.

TWST: Thank you. (MN)

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