

American Campus Communities

Equity Research



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First Quarter Operating Results

Revenue totaled \$273.7 million, an increase of 17.6 percent from \$232.7 million in the first quarter 2021, and operating income for the quarter increased 59.5% to \$74.0 million versus \$46.4 million in the prior year first quarter.

The increase in revenue and operating income was primarily due to improvement of the company's operations for the 2021-2022 academic year, as compared to the COVID-19 financial impact on the prior academic year.

Net income for the 2022 first quarter totaled \$39.2 million, or \$0.27 per fully diluted share, compared with net income of \$15.6 million, or \$0.11 per fully diluted share for the same quarter in 2021.

FFO for the 2022 first quarter totaled \$106.1 million, or \$0.75 per fully diluted share, as compared to \$81.2 million, or \$0.58 per fully diluted share for the same quarter in 2021.

FFOM for the 2022 first quarter was \$101.4 million, or \$0.72 per fully diluted share, as compared to \$79.5 million, or \$0.57 per fully diluted share for the same quarter in 2021.

Same store property revenues increased by 10.0 percent and same store property operating expenses increased by 4.3 percent. NOI for the total owned portfolio increased 20.1 percent to \$149.4 million for the quarter from \$124.5 million in the comparable period of 2021.

Business Summary

American Campus Communities, Inc. is the largest developer, owner and manager of student housing communities in the United States. It is headquartered in Bee Cave, Texas. The company works with universities to develop, manage and finance on-campus communities by creating customized solutions to fit the university's needs. As of March 31, 2021, ACC's total managed portfolio consists of 207 properties with approximately 142,400 beds.

Sector/Industry

Sector	Real estate
Industry	Equity REITs
Sub-Industry	Student Residence

Stock data

Price \$	57.95
Bloomberg code	ACC:US
Market cap. \$M	8.064
Shares outstanding	139.160
52-week range \$	43,95 – 57,95
Daily volume	31.427.927

Main Metrics (\$M)

	2020	2021E	2022E
Revenues	942	1001	1044
EBITDA	441	497	520

Multiples

	2020	2021E
EV/Sales	12.15	13.1
EV/EBITDA	25,98	26.2
P/E	242,29	57.4

Remuneration

	2020	2021E	2022E
Dividend yield	2.9%	2.9%	2.9%

Company overview

American Campus Communities, Inc. owns and operates on and off-campus housing properties, most of which are near colleges and universities. Its core businesses are the development and management of student housing facilities. The company also provides different services to partner institutions. Among these services: development and construction on behalf of the universities, third-party management and leasing services.

History

American Campus Communities inc. is the main developer, owner, and manager of student housing facilities in the United States. Based in Bee Cave, Texas, the company has been the first publicly traded student housing REIT in the US and has been listed on the New York Stock Exchange since 2004.

The company was co-founded in 1993 by the present CEO Bill Bayless, and for the following ten years it has become the largest developer, manager, and owner of students' facilities in the United States, with a total managed portfolio consisting of 203 properties with approximately 140,900 beds. Bill Bayless had humble origins and forged its vision of what was going to be its company, while he still was a student in West Virginia working as a dishwasher and grill cook. He co-founded American Campus Communities with Wayne Senecal and Joseph Domberge, having only six years of experience in the real estate industry and \$3000 to his name,

During its first ten years of activity (until 2003), the company worked to establish itself as a big third-party developer and manager, also developing networking relationships with the SUNY System, the University of California System, and the Texas A&M University System. In 2004 ACC could count on more than \$300 million in owned assets and could be listed on the New York Stock Exchange.

In the twelve years since going public, the company has averaged a compounded annual growth rate in net operating income more than 26 percent. In addition, the company's same store portfolio has achieved average fall occupancy of 97.7 percent and has produced positive same store growth in rental rate, rental revenue, and net operating income every year, even during the great recession.

This great commitment and passion, that characterizes its founder, and its employees also lead ACC to winning many prizes and obtaining accolades, such as the sector's "Best in Class", investment grade rating from both Moody's and Standard and Poor's, "Development Firm of the Year" by the National Association of Home Builders and being named by Forbes as one of "America's 100 Most Trustworthy Companies".



Corporate strategy

1. **DISCIPLINED INVESTMENT CRITERIA:** the company only invests on sites that present the following characteristics: proximity to universities' campuses, possible product differentiation and submarkets with barriers to entry.
2. **ASSETS FOR LONG TERM NOI GROWTH:** ACC seeks assets with characteristics that drive long term net operating income growth. Among these, undermanaged opportunities that allow the following operations: product repositioning, investment of capital within the units and/or amenity upgrades, product pricing strategies, opportunities created by non-experienced student operators.

3. **DIVERSIFIED INVESTMENT PLATFORM:** American Campus Communities' investment decisions within a market are based on the possibility of entering the market at the lowest cost basis, an evaluation of the asset characteristics (looking for those that could drive long term NOI growth), determining a proper strategy for entry or expansion. This platform then includes acquisitions, development, on and off campus properties, joint venture, and mezzanine financing.
4. **DEVELOPMENT STANDARDS AND PHILOSOPHY:** the company follows a very clear philosophy in its investments to gain a solid competitive advantage. It sticks to various best practices and tends to build facilities for the masses, which means it has affordable rental rates to facilitate the entire student enrolment base. Other than that, the company follows high development standards to assure its customers the best living experience, in a safe and proper environment.
5. **ACADEMIC ORIENTATION:** ACC's facilities are not only built to be rental properties, but they are always developed thinking about its customer's needs. In fact, its student accommodation sites, other than being near campuses, also have features that help students achieve their best in their academic career.

Business Model

Revenue generation

American Campus Communities' objectives are to create long-term stockholder value by deploying capital to develop, redevelop, acquire, and operate student housing communities, and to sell communities when they no longer meet their long-term investment strategy and when market conditions are favourable.

The main sources of income are property operations and third-party services. As far as owned properties are concerned, ACC's cash flows are almost guaranteed because many warranties are required. In particular: student housing properties are typically leased by the bed on an individual lease liability basis, unlike multifamily housing where leasing is by the unit. Individual lease liability limits each resident's liability to his or her own rent without liability for a roommate's rent. A parent or guardian is generally required to execute each lease as a guarantor unless the resident provides adequate proof of income or financial aid. Properties typically require 12 monthly rental instalments, whereas leases for residence hall properties typically corresponds to the university's academic year and require ten monthly rental instalments.

Also, ACC aims to maximise its revenue through the implementation of strategic annual marketing plans and leasing administration programs. The company even tries to maximize its cash flows with a prudent control of costs and expenses, priority on which their management is focused.

On the other side, third party services include: development services and property management services. As far as development is concerned, services range from short-term consulting projects to long-term full-scale development and construction projects. Those services are typically provided to colleges and universities seeking to modernize their on-campus student housing properties. Properties that, quite often, are still managed by ACC following their openings. Other than that, ACC also provides some pre-development services that typically include feasibility studies for third-party owners and design. Last but not least, construction management services typically consist of hiring project professionals and a general contractor, coordinating and supervising the construction, equipping and furnishing the property, site visits, and full coordination and administration of all activities necessary for project completion in accordance with plans and specifications and with verification of adequate insurance.

On the other hand, property management services include operations, marketing, leasing, administration, facilities maintenance, business administration, accounts payable, accounts receivable, financial reporting, capital projects, and residence life student development.

of **income** or financial aid. This means that the company's **cash flows** are almost guaranteed, as in case of insolvency it can retaliate over the guarantor.

Another “soft strength”, which possibly is less evident, is the welcoming climate that student accommodations have. The **life experience** given by living inside such a facility, instead of living in a flat is something that makes thousands of students choose to live in a residency every year. This allows the company to attract **new customers** only thanks to its core business, without much effort.

As it is possible to see in its annual report, the **sector** in which ACC operates is **anticyclic**, meaning that during the past **negative macroeconomics outlooks** the company has also been able to keep generating positive income and to growth with very fast rates. This means that the company has been able to translate into very good cash flows the fact that most of the students enrolled in a university need a close accommodation.

Another relevant strength on which the company can count is the **number of facilities** it has and the **product differentiation** it is able to realize. As of March 31, 2021, the company owned 166 student housing properties with approximately 111,900 beds, including its owned and third-party managed properties. ACC's total managed portfolio consists of 207 properties with approximately 142,400 beds. This **enormous portfolio** allows the company to provide different kinds of facilities, such as on and off campus residencies, and different room structures within the same building. The differentiation allows the company to meet different customers' needs and to enlarge its catchment area.

Finally, the quality of the company's business model is witnessed by the fact that **enrolment trends to not correlate to NOI trends**. ACC's time series show in fact that even in markets with declining enrolment the company has been able to maintain good NOI trends.

Weaknesses

American Campus Communities' most evident structural weakness is of course its **exposure to Covid-19**. In fact, the company has lost many potential and regular customers due to the **online and remote teaching**. Those new technologies, which were implemented during various pandemic waves, led many students not to leave their homes or their hometowns to follow lessons, leading the company to sign less contracts. It is anyway needed to say that with the current perspectives the company should not be any more impacted by Covid-19, but it could still be eventually exposed to another pandemic.

Another important source of weakness that could impact some of ACC's campuses is that they are linked to the **university's reputation**. As student accommodation facilities, its developments are in fact strongly tight to the attractiveness of the partner institution where they are located. Therefore, if a university loses enrolments, because the quality of its teaching decreases or because of any scandal, the cash flows of the campuses in that area might be seriously affected.

Opportunities

Even if the company might still be exposed to consequences linked to another potential pandemic, the business in which American Campus Communities operates is in **strong recovery**. In fact, people have shown a very strong will to return on campus, to regain all those human relations that were not possible with online teaching, and to live again the “college years”. Thus, the company may exploit these strong rates of growth to expand its customer basis and develop new facilities.

Another important opportunity is the fact of developing relationships with non-standard college **institutions**, just like **Disney**. For example, ACC has been able to build a partnership with Disney, to develop \$630 million community for participants of the Disney College Program, now known as Disney Internships & Programs. This kind of institutions could allow the company to grow even bigger in the next years and could help diversify the risk of operating in a single sector (college students housing), while keeping the same core business.

Moreover, the company states that a very important opportunity for them could be the **renewal and modernization** of existing owned or third-party facilities. These modernizations could in fact help ACC gain new customers for its third-party development and management services or even gain new residents in its owned facilities that could be attracted by a modern and good-looking accommodation.

Threats

The first relevant threat to the company, which is important to emphasize, is the current development of **online universities**. Even though most people know the differences between an online and an offline formative experience, the Covid-19 pandemic has exponentially grown the enrolments in online universities. Therefore, if a greater number of people chose to attend online classes, ACC might suffer from a loss of potential customers.

Another important threat that could affect the company is the increasing high **school dropout rate** in the US. Dropout rate that could lead ACC to lose important fractions of customers in the upcoming years that do not even enrol in universities.

This trend of losing enrolments is also seen to be more pronounced in **smaller universities**.

Among the causes of this negative trend, there are for sure the **rising costs of higher education** and student loans costs.

Market Overview

The volume of student housing investment in the U.S. reached \$1.7 billion in the second quarter of 2021. While this result represents a significant increase over the level in the same period a year ago, it is still 12% below the level recorded in the same period between 2017 and 2019. Sales of student housing assets had stalled in the second quarter of 2020 amid the Covid-19 disruption to the commercial real estate market and as universities and students across the U.S. pivoted to distance learning. Although the crisis due to the pandemic is improving and students are starting to attend campuses again, data show that the occupancy rate is still lower than it was in the pre-pandemic period. For this reason, the composition of student housing should continue to shift toward more modern, purpose-built offerings.

Porter's five forces analysis

Industry and competitors

CAA is the largest company in the university housing sector in the US. Competition can be based on the development of new technologies that keep pace with the rapid evolution of the university system following COVID-19.

Threats of new entrants

There is little threat of new competitors entering the market. Indeed, the barriers to entry are difficult to overcome, in particular the need for large amounts of capital and the presence of large companies whose presence is already well established in the sector.

Producers of close substitutes

The risk of substitutes entering the sector is not high. Indeed, the competition is focused on the constant development of houses that can best compete with the needs of customers while maintaining a price that is affordable for students.

Suppliers

Being student housing a real estate sector, suppliers do not play a major role. In addition, being a sector with few companies, and therefore very concentrated, but many possible suppliers, the bargaining power of the suppliers is limited.

Customers

Customers do not have strong bargaining power. This is for several reasons, in particular because the sector is very concentrated, and also because finding a place to live while studying at university is a primary need for students.

Peers

Since American Campus Communities is the only firm listed who operates in the student housing community's business, to pursue our valuation based on multiple analysis we considered a bigger category of companies, which is the one that operates in the multifamily apartment community's business. Thus, it is important to highlight that the DCF valuation have more sense in this case than the other, given the impossibility to find better peers.

Here below it is possible to find the firms considered in the analysis with a brief description.

AvalonBay Communities



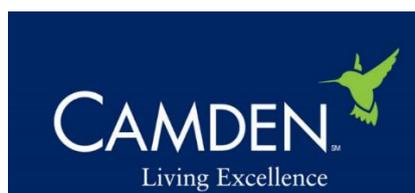
AvalonBay Communities, Inc. is a real estate investment trust. The Company's segments include Same Store, Other Stabilized and Development/Redevelopment. The Company develops, redevelops, acquires, owns, and operates multifamily apartment communities. It owns or holds a direct or indirect ownership interest in approximately 278 operating apartment communities containing 81,803 apartment homes in 12 states and the District of Columbia and 17 wholly owned apartment communities under development.

UDR



UDR, Inc. is a self-administered real estate investment trust. The Company owns, operates, acquires, renovates, develops, redevelops, disposes of and manages multifamily apartment communities generally located in various markets across the United States. Its real estate portfolio includes approximately 158 communities in 13 states plus the District of Columbia totalling 52,071 apartment homes. The Company owns interest in approximately 6,211 completed or to-be-completed apartment homes through unconsolidated joint ventures or partnerships, including 3,374 apartment homes owned by entities in which it holds preferred equity investments.

Camden Property Trust



Camden Property Trust is a real estate investment trust. The Company and its subsidiaries are primarily engaged in the ownership, management, development, redevelopment, acquisition, and construction of multifamily apartment communities. It owns interests in and operates approximately 170 multifamily properties consisting of 58,055 apartment homes across the United States. The Company has five properties under construction, which consist of approximately 1,773 apartment homes.

Mid-America Apartment Communities

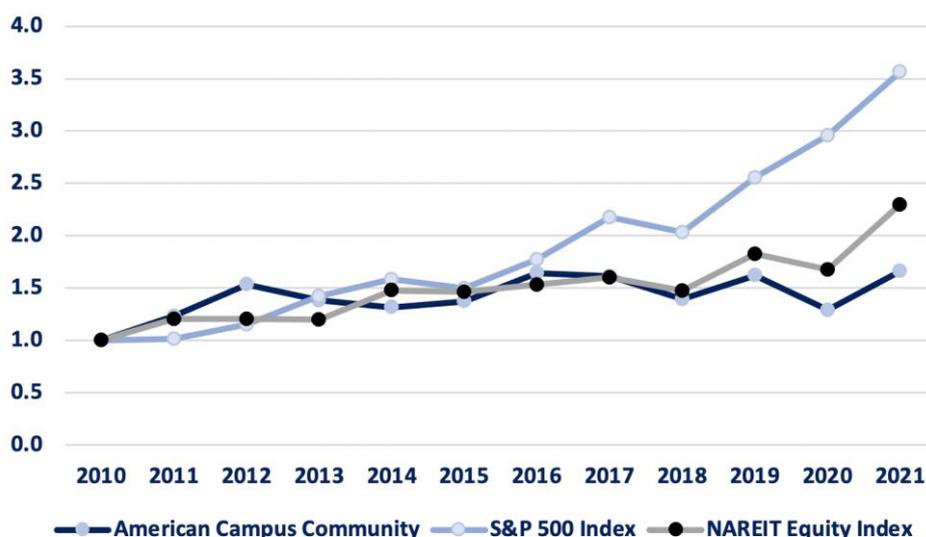


Mid-America Apartment Communities, Inc. is a multifamily-focused, self-administered, and self-managed real estate investment trust. The Company owns, operates, acquires, and selectively develops apartment communities primarily located in the Southeast, Southwest, and Mid-Atlantic regions of the United States. The Company owns and operates approximately 290 apartment communities through the Mid-America Apartments, L.P. (Operating Partnership) and its subsidiaries.

Valuation

American Campus Community has achieved average annual revenue growth in the last years of about 9%. During the pandemic it performed very well, even though total revenues decreased by 7.6% in 2020, but it has been able to increase them by 8.3% in the last year, offsetting the previous period's decrease. This trend switch is thanks to an increase in demand for services with students attending campuses again.

Stock performance



Compared to S&P 500 index and FTSE NAREIT All Equity REITs stock performance, which are the two main benchmarks for American Campus Community, it's clear how the stock performed well until 2016, with a price gap opening from 2017. The situation worsened with the breaking of the pandemic, with ACC's stock that has been widely outperformed by S&P 500 Index, and a substantial difference came out between ACC and NAREIT Equity Index as well.

Financial results

By carrying out the financial analysis of American Campus Community's past performance, it's evident how Covid 19 had a huge impact on the firm, with a drop of revenues of about 8%. The company was able to get back to pre-pandemic level, with significant revenues increase in 2021.

Metrics (USD in thousand)	2019	2020	2021	2022E	2023E
Revenue	943,042	870,584	942,409	1,001,000	1,044,000
Growth	7.07%	-7.68%	8.25%	6.22%	4.30%

EBITDA	179,890	187,344	156,560	497,465	520,333
Growth	-15.38%	4.14%	-16.43%	217.75%	4.60%
Net Income	84,969	72,803	35,489	89,062	137,768
Earnings per share	0.611	0.523	0.255	0.640	0.990
FCFO	45,843	206,484	202,075	468,976	491,511
Per share	0.33	1.48	1.45	3.37	3.53
Growth	-29.93%	350.42%	-2.14%	132.08%	4.81%
NOSH	139,160	139,160	139,160	139,160	139,160

Discounted Cash Flow and WACC

To find the WACC the cost of equity has been estimated using the Capital Asset Pricing Model (CAPM). According to analysts' best practices, the risk-free rate we assumed corresponds to the 10Y Treasury Bond yield 2,60%. We also assumed, in line with the current market trend, a market risk premium of 6,43%. The risk factor Beta has been taken regressing the return of the firm using the return of the S&P500 – 0,987. To estimate the cost of debt we used the credit spread for BB firms added to the risk-free. In conclusion weighting the two costs estimated above for the market value of debt and equity results in a WACC being 7.87%.

To build the Discounted Cash Flow Model then we assumed a growth rate of revenues of 2.5% and discounting the FCFO obtained we found a target price of 71.4 \$.

	1	2	3	4	5	
USD th	2022	2023	2024	2025	2026	TV
FCFO	468.976	491.511	521.806	533.163	606.178	11.560.157
WACC	7,87%					
l-t growth	2,50%					
USDth						
PV(FCFO)	434.741	422.371	415.670	393.714	414.955	
PV(TV)	7.913.419					
EV	13.330.490					
Net Debt	3.389.164					
EqV	9.941.326					
NOSH	139.160					
Target Price	71,4					

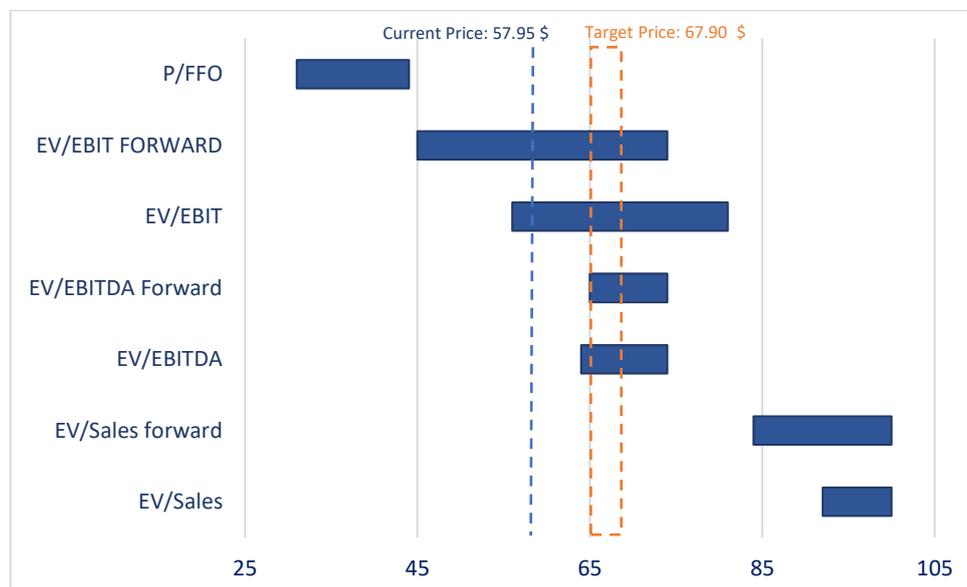
Multiples Analysis

The sample of peers focus on the same geographical area, but since other listed firm in the US who focus on the same segment of ACC, we decided to use firms who operate in a similar market which is the multifamily residential.

Company	EV/Sales		EV/EBITDA		EV/EBIT		P/E		P/FFO
	EV/Sales	Forward	EV/EBITDA	Forward	EV/EBIT	Forward	P/E	Forward	
AvalonBay Communities	18,4x	16,8x	30,8x	27,3x	69,6x	50,0x	34,3x	50,2x	28,2x
Mid-America Apartment Communities	15,8x	14,5x	28,1x	25,0x	60,6x	48,9x	44,7x	44,9x	31,1x
UDR	18,4x	17,4x	26,6x	27,7x	87,4x				27,9x
Camden Property Trust	17,6x	15,3x	31,1x	25,1x	88,8x	70,7x	57,7x	83,1x	35,4x
25th-percentile	16,3x	14,7x	27,0x	25,0x	62,8x	48,9x	34,3x	44,9x	28,0x
75th-percentile	18,4x	17,3x	31,0x	27,6x	88,5x	70,7x	57,7x	83,1x	34,3x

American Campus Communities	12,2x	13,1x	26,0x	26,2x	69,3x	36,8x	242,3x	57,4x	29,3x
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Football Field Valuation



Blackstone acquisition

The 20th of April, when the report was already closed, ACC's stocks closed 14 % higher than last close at \$65.47. The reason beside that was that American Campus communities was scooped up by New York investment firm Blackstone in a deal valued at nearly \$13 billion.

Jacob Werner, Blackstone's co-head of American acquisitions, said in a statement: "American Campus Communities has a best-in-class portfolio and platform, built on longstanding relationships with some of the most distinguished and fastest growing universities in the country".

The per-share price of the all-cash deal is \$65.47, nearly 14% higher than American Campus' last stock close. The American Campus transaction has been approved by the company's board of directors and is expected to close in the third quarter.

Private equity firms are betting that private student housing complexes will provide better returns compared with apartments and other residential assets. Dormitory rates can reset every year, which serves as a hedge against inflation.

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