

BY LYNN NOVELLI

# Making the Grade

*Bill Bayless has helped take American Campus Communities to the head of the class.*

**B**ill Bayless, president and CEO of **American Campus Communities** (NYSE:ACC), didn't realize he was starting his career in real estate in 1984 when as a student he landed a job as a resident assistant (RA) at West Virginia University. After graduation, he moved up to resident manager and then to area marketing coordinator with the student housing management company that oversaw the dorms.

Bayless furthered his real estate education by working in operations and marketing for other student housing companies before he and two other investors co-founded American Campus Lifestyle Companies in 1993. The company's first project was rehabbing and managing a privately owned residence hall at the University of Texas in Austin.

In 1997, the fledgling company took on Reckson Partners as a major partner and changed its name to American Campus Communities. Eight years and thousands of beds later, the company became the first publicly traded student housing REIT. Since the 2004 IPO, American Campus has expanded its portfolio tenfold, growing from total assets of \$350 million to nearly \$3.5 billion. Additionally, the company has delivered a total return of 138 percent.

Bayless attributes much of the company's success to the executive team's hands-on experience. "Myself and seven other senior managers were RAs who climbed up the ladder," he says. "Growing up in the field has given us a grass-roots understanding of not only our customers' needs, but also the impact of our decisions."

*REIT* magazine recently spoke with Bayless about the unique niche student housing REITs occupy, the market conditions that favor his company's continued growth and why "Animal House" doesn't faze him.

**REIT:** Student housing occupies a unique niche in commercial real estate, even within the multifamily space. What makes it so different?

**Bill Bayless:** Student housing is more operationally intense than conventional multifamily, in which tenants continually move in and out. All of our tenants move in during a two-week period in August every year, giving us a very short period in which to make the space ready for new tenants.

Secondly is the number of renters that we administer. We lease by the bed, which means we have 63,000 rental units. If you include the properties we manage, we have 91,600 rental units.

Another distinguishing factor is the growth opportunities in our sector. The college housing space is still highly fragmented from an ownership perspective, making the industry ripe

## CLOSE-UP

**FULL NAME:** William C. (Bill) Bayless

**AGE:** 46

**EDUCATION:** B.S. in Business Administration, West Virginia University

**FAMILY:** Married 25 years to wife, Jamie. Two children, Ryan (24) and Lauren (22)

**CURRENTLY READING:** "Intellectuals and Society" by Thomas Sowell

**FAVORITE MOVIE:** "Braveheart"

**FAVORITE SPORTS TEAM:** West Virginia University Football and Pittsburgh Steelers

**FAVORITE VACATION SPOT:** Wailea Beach, Maui, Hawaii



Bayless sits in one of his company's properties at Texas State University in San Marcos, TX. The dorm is a renovated church.

consolidation. We also have demonstrated resiliency during the economic downturn.

**REIT:** How do you apply the standard metrics of occupancy and rental rates to student housing?

**Bayless:** The metrics are largely the same as for any other real estate sector.

However, because of our leasing cycle you need to compare quarterly results to the prior year to see the change in occupancy and rents between leasing periods. The majority of our portfolio is apartment-style product, which is occupied year round. Our annualized occupancy is 95 percent; this fall occupancy was 98 percent. At the few properties where we have academic-year leases, we run sports camps, retreats and workshops to keep the properties occupied.

**REIT:** Student housing is a small REIT subsector with only three players. How does American Campus Communities distinguish itself from its student housing peers?

**Bayless:** Two areas. First, we have a very disciplined investment strategy focused on proximity to campus, product differentiation and being located in sub-markets with barriers to entry. Second, we have developed the industry's most sophisticated proprietary operating platform that gives us a distinct competitive advantage.

**REIT:** American Campus is experiencing growth across the board — rents, occupancy, net operating income. What current trends are in your favor driving this growth?

**Bayless:** The demand is there — a higher percentage of high school students are attending college and students are taking longer to graduate. The supply side also works in our favor. Dwindling state budgets and aging on-campus facilities mean that privatization is a growing trend. Our operating platform enables us to capitalize on opportunities.

**REIT:** One of your stated business objectives is to “establish a franchise name.” Do you feel you are there yet?

**Bayless:** With higher education and on Wall Street, we have established American Campus Communities as best-in-class through our extensive growth, consistent performance and our demonstrated resilience in an economic downturn.

From the consumer perspective — the students — we have more work to do. I would love to say that high school students are waking up and saying, “I want to live in an American Campus community.” But the fact is that even though we are the largest owner, there is still great opportunity for market penetration and franchise recognition.

**REIT:** Your tenants are students — not traditionally considered the best tenants. How does that impact your business model?

**Bayless:** You have bought into the greatest misperception in the industry — that students are not good tenants.

That may have been true if you think of absentee-landlords who own student housing or maybe have “Animal House” in your mind. But, what we believe and have found to be true is that if you build beautiful communities, maintain them impeccably and communicate your expectations to students, they respond by being very good tenants. In our business model, the owner-operator shows care and concern for the students and they respond by showing care and concern for the community. In our model, students are wonderful tenants.

We find that partially due to this misconception [of students being bad tenants], mainstream real estate has ignored this sector and allowed companies like American Campus to step in. Until our IPO in 2004, the sector did not see a lot of mainstream investment.

**REIT:** Your RA experience was 25 years ago. How do you stay in touch with today's students to understand what they want?

**Bayless:** In several ways. Every fall we hire a third-party survey company so that we can get unbiased student sentiment on our products and services. We also listen to our RAs, who are the future leaders. We have an employee development program for field staff. We draw on that to fill vacancies and corporate promotions.

**REIT:** What has been the greatest challenge you have faced in your career and what did you learn from going through it?

**Bayless:** Going public was the greatest challenge for American Campus Communities and for me professionally. We had to convince Wall Street and institutional investors to overcome the misperceptions about our sector and position ourselves as a mainstream investment opportunity. We have educated the market on our sector, giving institutional capital confidence to enter it.

The best advice I got along the way was from Lou Taylor, then an analyst with Deutsche Bank. He told me, “The heck with the analysts and banks. Remain true to the fundamentals of your business, operate the company the way you always have and the rest will take care of itself.”

It was great counsel. ♦

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*Lynn Novelli is a regular contributor to REIT magazine.*