

Education Realty Trust, Inc.  
Form 10-Q  
August 07, 2012

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

**(Mark One)**

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
x ACT OF 1934**

For the quarterly period ended June 30, 2012

**Or**

**..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: **001-32417**

**Education Realty Trust, Inc.**

(Exact Name of Registrant as Specified in Its Charter)

Maryland 20-1352180  
(State or Other Jurisdiction of Incorporation or Organization) (I.R.S. Employer Identification No.)

999 South Shady Grove Road, Suite 600, Memphis,  
Tennessee 38120  
(Address of Principal Executive Offices) (Zip Code)

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Registrant's Telephone Number, Including Area Code: (901) 259-2500

**Not Applicable**

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

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 ☒ 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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

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. (Check one):

Large accelerated filer ☐

Accelerated filer ☒

Non-accelerated filer ☐

Smaller reporting company ☐

(Do not check if a 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 ☒

As of August 2, 2012, the latest practicable date, the Registrant had outstanding 95,627,426 shares of common stock, \$0.01 par value per share.

**EDUCATION REALTY TRUST, INC.**

**FORM 10-Q**

**QUARTER ENDED JUNE 30, 2012**

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**Part I — Financial Information****Item 1. Financial Statements.****CONDENSED CONSOLIDATED BALANCE SHEETS**

(Amounts in thousands, except share and per share data)

(Unaudited)

|                                                                                                                                                             | June 30, 2012 | December 31,<br>2011 |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------|----------------------|
| <b>ASSETS</b>                                                                                                                                               |               |                      |
| Assets:                                                                                                                                                     |               |                      |
| Collegiate housing properties, net                                                                                                                          | \$ 817,321    | \$ 803,519           |
| Assets under development                                                                                                                                    | 128,349       | 56,648               |
| Corporate office furniture, net                                                                                                                             | 1,974         | 574                  |
| Cash and cash equivalents                                                                                                                                   | 8,414         | 75,813               |
| Restricted cash                                                                                                                                             | 5,442         | 4,826                |
| Student contracts receivable, net                                                                                                                           | 496           | 347                  |
| Receivable from managed third parties                                                                                                                       | 497           | 933                  |
| Notes receivable                                                                                                                                            | 18,000        | 18,000               |
| Goodwill and other intangibles, net                                                                                                                         | 3,258         | 3,965                |
| Other assets                                                                                                                                                | 16,257        | 13,184               |
| Total assets                                                                                                                                                | \$ 1,000,008  | \$ 977,809           |
| <b>LIABILITIES AND EQUITY</b>                                                                                                                               |               |                      |
| Liabilities:                                                                                                                                                |               |                      |
| Mortgage and construction loans, net of unamortized premium/discount                                                                                        | \$ 310,507    | \$ 358,504           |
| Unsecured revolving credit facility                                                                                                                         | 30,000        | —                    |
| Accounts payable                                                                                                                                            | 3,675         | 3,933                |
| Accrued expenses                                                                                                                                            | 43,183        | 27,833               |
| Deferred revenue                                                                                                                                            | 12,000        | 14,409               |
| Total liabilities                                                                                                                                           | 399,365       | 404,679              |
| Commitments and contingencies (see Note 6)                                                                                                                  | —             | —                    |
| Redeemable noncontrolling interests                                                                                                                         | 9,218         | 9,776                |
| Equity:                                                                                                                                                     |               |                      |
| Common stock, \$0.01 par value per share, 200,000,000 shares authorized,<br>95,293,349 and 91,800,688 shares issued and outstanding as of June 30, 2012 and | 953           | 918                  |

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December 31, 2011, respectively

|                                                                                                             |              |            |
|-------------------------------------------------------------------------------------------------------------|--------------|------------|
| Preferred stock, \$0.01 par value per share, 50,000,000 shares authorized, no shares issued and outstanding | —            | —          |
| Additional paid-in capital                                                                                  | 686,546      | 662,657    |
| Accumulated deficit                                                                                         | (98,564 )    | (101,708 ) |
| Total Education Realty Trust, Inc. stockholders' equity                                                     | 588,935      | 561,867    |
| Noncontrolling interests                                                                                    | 2,490        | 1,487      |
| Total equity                                                                                                | 591,425      | 563,354    |
| Total liabilities and equity                                                                                | \$ 1,000,008 | \$ 977,809 |

*See accompanying notes to the condensed consolidated financial statements.*

**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

(Amounts in thousands, except per share data)

(Unaudited)

|                                                                                                                | Six<br>months<br>ended<br>June 30,<br>2012 | Six<br>months<br>ended<br>June 30,<br>2011 |
|----------------------------------------------------------------------------------------------------------------|--------------------------------------------|--------------------------------------------|
| Revenues:                                                                                                      |                                            |                                            |
| Collegiate housing leasing revenue                                                                             | \$67,715                                   | \$52,312                                   |
| Third-party development consulting services                                                                    | 345                                        | 2,349                                      |
| Third-party management services                                                                                | 1,572                                      | 1,579                                      |
| Operating expense reimbursements                                                                               | 4,399                                      | 3,873                                      |
| Total revenues                                                                                                 | 74,031                                     | 60,113                                     |
| Operating expenses:                                                                                            |                                            |                                            |
| Collegiate housing leasing operations                                                                          | 30,677                                     | 24,580                                     |
| Development and management services                                                                            | 3,263                                      | 2,647                                      |
| General and administrative                                                                                     | 4,050                                      | 2,978                                      |
| Depreciation and amortization                                                                                  | 17,518                                     | 13,845                                     |
| Ground lease expense                                                                                           | 3,020                                      | 2,732                                      |
| Reimbursable operating expenses                                                                                | 4,399                                      | 3,873                                      |
| Total operating expenses                                                                                       | 62,927                                     | 50,655                                     |
| Operating income                                                                                               | 11,104                                     | 9,458                                      |
| Nonoperating expenses:                                                                                         |                                            |                                            |
| Interest expense                                                                                               | 7,587                                      | 9,384                                      |
| Amortization of deferred financing costs                                                                       | 623                                        | 568                                        |
| Interest income                                                                                                | (44 )                                      | (92 )                                      |
| Loss on extinguishment of debt                                                                                 | —                                          | 351                                        |
| Total nonoperating expenses                                                                                    | 8,166                                      | 10,211                                     |
| Income before equity in earnings (losses) of unconsolidated entities, income taxes and discontinued operations | 2,938                                      | (753 )                                     |
| Equity in earnings (losses) of unconsolidated entities                                                         | (301 )                                     | (18 )                                      |
| Income (loss) before income taxes and discontinued operations                                                  | 2,637                                      | (771 )                                     |
| Income tax benefit                                                                                             | (479 )                                     | (218 )                                     |
| Income (loss) from continuing operations                                                                       | 3,116                                      | (553 )                                     |
| Income from discontinued operations                                                                            | 174                                        | 1,935                                      |
| Net income                                                                                                     | 3,290                                      | 1,382                                      |
| Less: Net income attributable to the noncontrolling interests                                                  | 146                                        | 151                                        |
| Net income attributable to Education Realty Trust, Inc.                                                        | \$3,144                                    | \$1,231                                    |

Earnings per share information:

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Income attributable to Education Realty Trust, Inc. common stockholders per share — basic and diluted:

|                                                                                       |         |           |
|---------------------------------------------------------------------------------------|---------|-----------|
| Continuing operations                                                                 | \$0.03  | \$(0.01 ) |
| Discontinued operations                                                               | —       | 0.03      |
| Net income attributable to Education Realty Trust, Inc. common stockholders per share | \$0.03  | \$0.02    |
| Weighted average shares of common stock outstanding – basic                           | 93,907  | 71,527    |
| Weighted average shares of common stock outstanding – diluted                         | 94,990  | 71,527    |
| Amounts attributable to Education Realty Trust, Inc. – common stockholders:           |         |           |
| Income (loss) from continuing operations, net of tax                                  | \$2,972 | \$(680 )  |
| Income from discontinued operations, net of tax                                       | 172     | 1,911     |
| Net income                                                                            | \$3,144 | \$1,231   |
| Distributions per share of common stock                                               | \$0.14  | \$0.10    |

*See accompanying notes to the condensed consolidated financial statements.*



**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

(Amounts in thousands, except per share data)

(Unaudited)

|                                                                                                                       | Three<br>months<br>ended<br>June 30,<br>2012 | Three<br>months<br>ended<br>June 30,<br>2011 |   |
|-----------------------------------------------------------------------------------------------------------------------|----------------------------------------------|----------------------------------------------|---|
| Revenues:                                                                                                             |                                              |                                              |   |
| Collegiate housing leasing revenue                                                                                    | \$ 33,109                                    | \$ 25,613                                    |   |
| Third-party development consulting services                                                                           | 17                                           | 1,073                                        |   |
| Third-party management services                                                                                       | 719                                          | 745                                          |   |
| Operating expense reimbursements                                                                                      | 2,281                                        | 2,018                                        |   |
| Total revenues                                                                                                        | 36,126                                       | 29,449                                       |   |
| Operating expenses:                                                                                                   |                                              |                                              |   |
| Collegiate housing leasing operations                                                                                 | 15,523                                       | 12,266                                       |   |
| Development and management services                                                                                   | 1,647                                        | 1,316                                        |   |
| General and administrative                                                                                            | 1,933                                        | 1,605                                        |   |
| Depreciation and amortization                                                                                         | 8,859                                        | 7,106                                        |   |
| Ground lease expense                                                                                                  | 1,509                                        | 1,366                                        |   |
| Reimbursable operating expenses                                                                                       | 2,281                                        | 2,018                                        |   |
| Total operating expenses                                                                                              | 31,752                                       | 25,677                                       |   |
| Operating income                                                                                                      | 4,374                                        | 3,772                                        |   |
| Nonoperating expenses:                                                                                                |                                              |                                              |   |
| Interest expense                                                                                                      | 3,477                                        | 4,642                                        |   |
| Amortization of deferred financing costs                                                                              | 275                                          | 284                                          |   |
| Interest income                                                                                                       | (23                                          | (47                                          | ) |
| Total nonoperating expenses                                                                                           | 3,729                                        | 4,879                                        |   |
| Income (loss) before equity in earnings (losses) of unconsolidated entities, income taxes and discontinued operations | 645                                          | (1,107                                       | ) |
| Equity in earnings (losses) of unconsolidated entities                                                                | (38                                          | (23                                          | ) |
| Income (loss) before income taxes and discontinued operations                                                         | 607                                          | (1,130                                       | ) |
| Income tax benefit                                                                                                    | (404                                         | (371                                         | ) |
| Income (loss) from continuing operations                                                                              | 1,011                                        | (759                                         | ) |
| Income from discontinued operations                                                                                   | 165                                          | 1,275                                        |   |
| Net income                                                                                                            | 1,176                                        | 516                                          |   |
| Less: Net loss attributable to the noncontrolling interests                                                           | (80                                          | (60                                          | ) |
| Net income attributable to Education Realty Trust, Inc.                                                               | \$ 1,256                                     | \$ 576                                       |   |

## Earnings per share information:

Income attributable to Education Realty Trust, Inc. common stockholders per share — basic and diluted:

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|                                                                                       |          |            |
|---------------------------------------------------------------------------------------|----------|------------|
| Continuing operations                                                                 | \$ 0.01  | \$ (0.01 ) |
| Discontinued operations                                                               | —        | 0.02       |
| Net income attributable to Education Realty Trust, Inc. common stockholders per share | \$ 0.01  | \$ 0.01    |
| Weighted average shares of common stock outstanding – basic                           | 94,974   | 72,209     |
| Weighted average shares of common stock outstanding – diluted                         | 96,041   | 72,209     |
| Amounts attributable to Education Realty Trust, Inc. – common stockholders:           |          |            |
| Income (loss) from continuing operations, net of tax                                  | \$ 1,092 | \$ (683 )  |
| Income from discontinued operations, net of tax                                       | 164      | 1,259      |
| Net income                                                                            | \$ 1,256 | \$ 576     |
| Distributions per share of common stock                                               | \$ 0.07  | \$ 0.05    |

*See accompanying notes to the condensed consolidated financial statements.*

**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

(Amounts in thousands, except share data)

(Unaudited)

|                                                                | Common Stock |        | Additional      | Accumulated   | Noncontrolling |            |
|----------------------------------------------------------------|--------------|--------|-----------------|---------------|----------------|------------|
|                                                                | Shares       | Amount | Paid-In Capital | Deficit       | Interest       | Total      |
| Balance, December 31, 2010                                     | 58,657,056   | \$ 587 | \$ 414,850      | \$ (90,694 )  | \$ —           | \$ 324,743 |
| Common stock issued to officers and directors                  | 44,280       | —      | 360             | —             | —              | 360        |
| Proceeds from issuances of common stock, net of offering costs | 13,235,833   | 132    | 91,683          | —             | —              | 91,815     |
| Amortization of restricted stock                               | 53,369       | 1      | 608             | —             | —              | 609        |
| Cash dividends                                                 | —            | —      | (7,218 )        | —             | —              | (7,218 )   |
| Net income                                                     | —            | —      | —               | 1,231         | —              | 1,231      |
| Balance, June 30, 2011                                         | 71,990,538   | \$ 720 | \$ 500,283      | \$ (89,463 )  | \$ —           | \$ 411,540 |
| Balance, December 31, 2011                                     | 91,800,688   | \$ 918 | \$ 662,657      | \$ (101,708 ) | \$ 1,487       | \$ 563,354 |
| Common stock issued to officers and directors                  | 32,286       | —      | 360             | —             | —              | 360        |
| Proceeds from issuances of common stock, net of offering costs | 3,421,926    | 34     | 35,996          | —             | —              | 36,030     |
| Amortization of restricted stock                               | 38,449       | 1      | 631             | —             | —              | 632        |
| Cash dividends                                                 | —            | —      | (13,098 )       | —             | —              | (13,098 )  |
| Return of equity to noncontrolling interests                   | —            | —      | —               | —             | (321 )         | (321 )     |
| Contributions from noncontrolling interests                    | —            | —      | —               | —             | 1,362          | 1,362      |
| Net income (loss)                                              | —            | —      | —               | 3,144         | (38 )          | 3,106      |
| Balance, June 30, 2012                                         | 95,293,349   | \$ 953 | \$ 686,546      | \$ (98,564 )  | \$ 2,490       | \$ 591,425 |

*See accompanying notes to the condensed consolidated financial statements.*

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Amounts in thousands)

(Unaudited)

|                                                                                          | Six months<br>ended<br>June 30,<br>2012 | Six months<br>ended<br>June 30,<br>2011 |
|------------------------------------------------------------------------------------------|-----------------------------------------|-----------------------------------------|
| Operating activities:                                                                    |                                         |                                         |
| Net income                                                                               | \$ 3,290                                | \$ 1,382                                |
| Adjustments to reconcile net loss to net cash provided by operating activities:          |                                         |                                         |
| Depreciation and amortization                                                            | 17,518                                  | 13,845                                  |
| Depreciation included in discontinued operations                                         | —                                       | 501                                     |
| Deferred tax benefit                                                                     | —                                       | (91 )                                   |
| Loss on disposal of assets                                                               | 7                                       | 2                                       |
| Gain on sale of collegiate housing property in discontinued operations                   | (172 )                                  | (2,388 )                                |
| Loss on extinguishment of debt                                                           | —                                       | 351                                     |
| Loss on extinguishment of debt included in discontinued operations                       | —                                       | 406                                     |
| Noncash rent expense related to the straight-line adjustment for long-term ground leases | 2,146                                   | 2,106                                   |
| Amortization of deferred financing costs                                                 | 623                                     | 568                                     |
| Amortization of deferred financing costs included in discontinued operations             | —                                       | 2                                       |
| Loss on interest rate cap                                                                | —                                       | 5                                       |
| Amortization of unamortized debt premiums                                                | (103 )                                  | (195 )                                  |
| Distributions of earnings from unconsolidated entities                                   | 97                                      | 194                                     |
| Noncash compensation expense related to stock-based incentive awards                     | 810                                     | 753                                     |
| Equity in losses of unconsolidated entities                                              | 301                                     | 18                                      |
| Change in operating assets and liabilities                                               | 5,238                                   | (2,475 )                                |
| Net cash provided by operating activities                                                | 29,755                                  | 14,984                                  |
| Investing activities:                                                                    |                                         |                                         |
| Property acquisitions, net of cash acquired                                              | (22,951 )                               | (38,950 )                               |
| Purchase of corporate furniture and fixtures                                             | (1,639 )                                | (22 )                                   |
| Restricted cash                                                                          | (616 )                                  | 1,231                                   |
| Investment in collegiate housing properties                                              | (7,471 )                                | (10,722 )                               |
| Proceeds from sale of collegiate housing properties                                      | 42                                      | 57,515                                  |
| Payments on notes receivable                                                             | 1,800                                   | 39                                      |
| Loan to participating development                                                        | —                                       | (8,128 )                                |
| Earnest money deposits                                                                   | —                                       | (325 )                                  |
| Investment in assets under development                                                   | (70,659 )                               | (10,381 )                               |
| Distributions from unconsolidated entities                                               | 82                                      | —                                       |
| Net cash used in investing activities                                                    | (101,412 )                              | (9,743 )                                |
| Financing activities:                                                                    |                                         |                                         |
| Payment of mortgage and construction notes                                               | (77,300 )                               | (21,352 )                               |
| Payment of offering costs                                                                | (233 )                                  | (472 )                                  |
| Debt refund (issuance) costs                                                             | (26 )                                   | 46                                      |

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|                                                                        |         |           |          |
|------------------------------------------------------------------------|---------|-----------|----------|
| Borrowing on long-term debt                                            | 29,406  | —         |          |
| Debt extinguishment costs                                              | —       | (351      | )        |
| Repayments of line of credit                                           | —       | (3,700    | )        |
| Borrowings on line of credit                                           | 30,000  | —         |          |
| Proceeds from common stock offering                                    | 35,828  | 92,274    |          |
| Dividends and distributions paid to common and restricted stockholders | (13,098 | )         | (7,218 ) |
| Dividends and distributions paid to noncontrolling interests           | (319    | )         | (137 )   |
| Net cash provided by financing activities                              | 4,258   | 59,090    |          |
| Net increase (decrease) in cash and cash equivalents                   | (67,399 | )         | 64,331   |
| Cash and cash equivalents, beginning of period                         | 75,813  | 6,958     |          |
| Cash and cash equivalents, end of period                               | \$8,414 | \$ 71,289 |          |

*See accompanying notes to the condensed consolidated financial statements.*

|                                                                    | Six months<br>ended<br>June 30,<br>2012 | Six months<br>ended<br>June 30,<br>2011 |
|--------------------------------------------------------------------|-----------------------------------------|-----------------------------------------|
| Supplemental disclosure of cash flow information:                  |                                         |                                         |
| Interest paid                                                      | \$ 9,660                                | \$ 9,849                                |
| Income taxes paid                                                  | \$ 49                                   | \$ 182                                  |
| Supplemental disclosure of noncash activity:                       |                                         |                                         |
| Redemption of redeemable noncontrolling interests from unit holder | \$ 424                                  | \$ —                                    |

*See accompanying notes to the condensed consolidated financial statements.*

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

### 1. Organization and description of business

Education Realty Trust, Inc. (the “Trust”) was organized in the state of Maryland on July 12, 2004 and commenced operations as a real estate investment trust (“REIT”) effective with the initial public offering (the “Offering”) that was completed on January 31, 2005. Under the Trust’s Articles of Incorporation, as amended, the Trust is authorized to issue up to 200 million shares of common stock and 50 million shares of preferred stock, each having a par value of \$0.01 per share.

The Trust operates primarily through a majority-owned Delaware limited partnership, Education Realty Operating Partnership, LP (the “Operating Partnership”). The Operating Partnership owns, directly or indirectly, interests in collegiate housing communities located near major universities in the United States.

The Trust also provides real estate facility management, development and other advisory services through the following subsidiaries of the Operating Partnership:

EdR Management Inc. (“Management Company”), a Delaware corporation performing collegiate housing management activities; and

EdR Development LLC (“Development Company”), a Delaware limited liability company providing development consulting services for third party collegiate housing communities.

The Trust is subject to the risks involved with the ownership and operation of residential real estate near major universities throughout the United States. The risks include, among others, those normally associated with changes in the demand for housing by students at the related universities, competition for tenants, creditworthiness of tenants, changes in tax laws, interest rate levels, the availability of financing, and potential liability under environmental and other laws.

### 2. Summary of significant accounting policies

### **Basis of presentation and principles of consolidation**

The accompanying condensed consolidated financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States (“GAAP”). The accompanying condensed consolidated financial statements of the Trust represent the assets and liabilities and operating results of the Trust and its majority owned subsidiaries.

The Trust, as the sole general partner of the Operating Partnership, has the responsibility and discretion in the management and control of the Operating Partnership, and the limited partners of the Operating Partnership, in such capacity, have no authority to transact business for, or participate in the management activities of the Operating Partnership. Accordingly, the Trust accounts for the Operating Partnership using the consolidation method.

All intercompany balances and transactions have been eliminated in the accompanying condensed consolidated financial statements.

### **Interim financial information**

The accompanying unaudited interim financial statements include all adjustments, consisting only of normal recurring adjustments, that in the opinion of management are necessary for a fair presentation of the Trust’s financial position, results of operations and cash flows for such periods. Because of the seasonal nature of the business, the operating results and cash flows are not necessarily indicative of results that may be expected for any other interim periods or for the full fiscal year. These financial statements should be read in conjunction with the Trust’s consolidated financial statements and related notes included in the Trust’s Annual Report on Form 10-K for the year ended December 31, 2011 filed with the Securities and Exchange Commission (the “SEC”).



### **Use of estimates**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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. Significant estimates and assumptions are used by management in determining the recognition of third-party development consulting services revenue under the percentage of completion method, useful lives of collegiate housing assets, the valuation of goodwill, the initial valuations and underlying allocations of purchase price in connection with collegiate housing property acquisitions, the determination of fair value for impairment assessments and in the recording of the allowance for doubtful accounts. Actual results could differ from those estimates.

### **Reclassifications**

Certain prior period amounts have been reclassified to conform to the current period presentation. In the condensed consolidated statements of operations, regional and corporate costs of supporting our owned communities had previously been included in general and administrative expenses. Beginning with the three months ended March 31, 2012, the reclassification of regional and corporate costs of supporting our owned communities to collegiate housing leasing operations was not material to our condensed consolidated financial statements and had no impact on our previously reported net income, changes in equity, financial position or net cash flows from operations.

### **Cash and cash equivalents**

All highly-liquid investments with a maturity of three months or less when purchased are considered cash equivalents. Restricted cash is excluded from cash for the purpose of preparing the condensed consolidated statements of cash flows. The Trust maintains cash balances in various banks. At times, the amounts of cash may exceed the amount the Federal Deposit Insurance Corporation ("FDIC") insures. As of June 30, 2012, the Trust had \$1.8 million of cash on deposit that was uninsured by the FDIC or in excess of the FDIC limits.

### **Restricted cash**

Restricted cash includes escrow accounts held by lenders for the purposes of paying taxes, insurance, principal and interest and funding capital improvements.

## **Distributions**

The Trust pays regular quarterly cash distributions to stockholders. These distributions are determined quarterly by the Board of Directors (“Board”) based on the operating results, economic conditions, capital expenditure requirements, the REIT annual distribution requirements of the Internal Revenue Code of 1986, as amended (the “Code”), leverage covenants imposed by our revolving credit facility and other debt documents, and any other matters the Board deems relevant.

## **Collegiate housing properties**

Land, land improvements, buildings and improvements and furniture, fixtures and equipment are recorded at cost. Buildings and improvements are depreciated over 15 to 40 years, land improvements are depreciated over 15 years and furniture, fixtures, and equipment are depreciated over 3 to 7 years. Depreciation is computed using the straight-line method for financial reporting purposes over the estimated useful life.

Acquired collegiate housing communities' results of operations are included in the Trust's results of operations from the respective dates of acquisition. Appraisals, estimates of cash flows and valuation techniques are used to allocate the purchase price of acquired property between land, land improvements, buildings and improvements, furniture, fixtures and equipment and identifiable intangibles such as amounts related to in-place leases. Acquisition costs are expensed as incurred and are included in general and administrative costs in the accompanying condensed consolidated statements of operations.

Management assesses impairment of long-lived assets to be held and used whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Management uses an estimate of future undiscounted cash flows of the related asset based on its intended use to determine whether the carrying value is recoverable. If the Trust determines that the carrying value of an asset is not recoverable, the fair value of the asset is estimated and an impairment loss is recorded to the extent the carrying value exceeds estimated fair value. Management estimates fair value using discounted cash flow models, market appraisals if available, and other market participant data.

When a collegiate housing community has met the criteria to be classified as held for sale, the fair value less cost to sell such asset is estimated. If the fair value less cost to sell the asset is less than the carrying amount of the asset, an impairment charge is recorded for the estimated loss. Depreciation expense is no longer recorded once a collegiate housing community has met the held for sale criteria. Operations of collegiate housing communities that are sold or classified as held for sale are recorded as part of discontinued operations for all periods presented. During the six months ended June 30, 2012 and 2011, eleven properties were classified as part of discontinued operations in the accompanying condensed consolidated statements of operations for all periods presented. All eleven of these properties were sold by June 30, 2011 (see Note 8).

### **Repairs, maintenance and major improvements**

The costs of ordinary repairs and maintenance are charged to operations when incurred. Major improvements that extend the life of an asset are capitalized and depreciated over the remaining useful life of the asset. Planned major repair, maintenance and improvement projects are capitalized when performed. In some circumstances, the lenders require the Trust to maintain a reserve account for future repairs and capital expenditures. These amounts are classified as restricted cash in the accompanying condensed consolidated balance sheets as the funds are not available for use.

### **Ground leases**

In conjunction with certain acquisitions, the Trust has entered into long-term ground leases which require an increase in annual rent expense based on the greater of 3% or the consumer price index for the life of the lease. The Trust recognizes the minimum 3% annual increase in rent expense on a straight-line basis. For the six months ended June 30, 2012 and 2011, the Trust recognized \$3.0 million and \$2.7 million in rent expense, respectively, in the accompanying condensed consolidated statement of operations related to these ground leases.

#### **Investment in unconsolidated entities**

The Operating Partnership accounts for its investments in unconsolidated joint ventures, limited liability companies and limited partnerships using the equity method whereby the cost of an investment is adjusted for the Trust's share of earnings of the respective investment reduced by distributions received. The earnings and distributions of the unconsolidated joint ventures, limited liability companies and limited partnerships are allocated based on each owner's respective ownership interests. These investments are classified as other assets or accrued expenses, depending on whether the distributions exceed the Trust's contributions and share of earnings in the joint ventures, in the accompanying condensed consolidated balance sheets.

#### **Deferred financing costs**

Deferred financing costs represent costs incurred in connection with acquiring debt facilities. These costs are amortized over the terms of the related debt using a method that approximates the effective interest method. Deferred financing costs, net of amortization, are included in other assets in the accompanying condensed consolidated balance sheets.

## **Common stock issuances and offering costs**

Specific incremental costs directly attributable to the issuance of common stock are charged against the gross proceeds of the related issuance. Accordingly, underwriting commissions and other stock issuance costs are reflected as a reduction of additional paid-in capital in the accompanying condensed consolidated statement of changes in equity.

On November 8, 2011, the Trust completed a follow-on offering of 14.4 million shares of its common stock, which included 1.9 million shares purchased by the underwriters pursuant to an overallotment option. The Trust received approximately \$124.4 million in net proceeds from the offering after deducting the underwriting discount and other offering expenses. On January 10, 2011, the Trust completed a follow-on offering of 13.2 million shares of its common stock, which included 1.7 million shares purchased by the underwriters pursuant to an overallotment option. The Trust received approximately \$91.7 million in net proceeds from the offering after deducting the underwriting discount and other offering expenses. The Trust used the net proceeds to repay debt, fund its development pipeline, fund potential future acquisitions and for general corporate purposes.

On June 2, 2010, the Trust entered into two equity distribution agreements. Pursuant to the terms and conditions of the agreements, the Trust could issue and sell shares of its common stock having an aggregate offering amount of up to \$50 million. Sales of the common stock depended upon market conditions and other factors determined by the Trust and were made in transactions that were deemed to be “at-the-market” offerings as defined in Rule 415 under the Securities Act of 1933, as amended. The Trust had no obligation to sell any of the common stock, and could at any time suspend offers under the agreements or terminate the agreements. As of December 31, 2011, the Trust had sold 5.9 million shares of common stock under the agreements for net proceeds of \$49.3 million and reached the aggregate offering amount of \$50 million. On September 20, 2011, the Trust entered into the 2011 equity distribution agreement. Similar to the equity distribution agreements discussed above, the Trust may issue and sell shares of its common stock having an aggregate offering amount of up to \$50 million. As of June 30, 2012, the Trust had sold 4.6 million shares of common stock under the 2011 equity distribution program for net proceeds of approximately \$47.1 million. The Trust is using the net proceeds to repay debt, fund its development pipeline, fund potential future acquisitions and for general corporate purposes. On May 22, 2012, the Trust entered into two additional equity distribution agreements similar to the previous agreements discussed above. Under the 2012 agreements, the Trust may issue and sell shares of its common stock having an aggregate offering amount of \$50 million. As of June 30, 2012, the Trust had sold no common stock under the 2012 agreements.

On May 19, 2010, the Trust’s stockholders approved the Education Realty Trust, Inc. Employee Stock Purchase Plan (the “ESPP”), which became effective on July 1, 2010. Pursuant to the ESPP, all employees of the Trust are eligible to make periodic purchases of common stock through payroll deductions. Subject to the discretion of the compensation committee of the Board, the purchase price per share of common stock purchased by employees under the ESPP is 85% of the fair market value on the applicable purchase date. The Trust reserved 300,000 shares of common stock for sale under the ESPP. The aggregate cost of the ESPP (generally the 15% discount on the shares purchased) is recorded by the Trust as a period expense. For the six months ended June 30, 2012 and 2011, total compensation expense

relating to the ESPP was \$12,630 and \$13,395, respectively.

### **Debt premiums/discounts**

Differences between the estimated fair value of debt and the principal value of debt assumed in connection with collegiate housing property acquisitions are amortized over the term of the related debt as an offset to interest expense using the effective interest method.

### **Income taxes**

The Trust qualifies as a REIT under the Code. The Trust is generally not subject to federal, state and local income taxes on any of its taxable income that it distributes if it distributes at least 90% of its taxable income for each tax year to its stockholders and meets certain other requirements. If the Trust fails to qualify as a REIT in any taxable year, the Trust will be subject to federal, state and local income taxes (including any applicable alternative minimum tax) on its taxable income.

The Trust has elected to treat certain of its subsidiaries, including the Management Company, as taxable REIT subsidiaries (each a “TRS”). A TRS is subject to federal, state and local income taxes. The Management Company provides management services and through the Development Company, provides development services, which if directly provided by the Trust would jeopardize the Trust’s REIT status. Deferred tax assets and liabilities are recognized based on the difference between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using enacted tax rates in effect in the years in which those temporary differences are expected to reverse.

The Trust had no unrecognized tax benefits as of June 30, 2012 and 2011. As of June 30, 2012, the Trust did not expect to record any unrecognized tax benefits. The Trust, and its subsidiaries, file federal and state income tax returns. As of June 30, 2012, open tax years generally included tax years for 2008, 2009, 2010 and 2011. The Trust’s policy is to include interest and penalties related to unrecognized tax benefits in general and administrative expenses. As of June 30, 2012 and 2011, the Trust had no interest or penalties recorded related to unrecognized tax benefits.

#### **Noncontrolling interests**

As of June 30, 2012, the Trust had entered into three joint venture agreements to develop, own and manage properties near the University of Alabama, Arizona State University – Phoenix and The University of Mississippi. The Trust is deemed to be the primary beneficiary of these communities; therefore, the Trust accounts for these joint ventures using the consolidation method. Our joint venture partners’ investments in the joint ventures are accounted for as noncontrolling interests in the accompanying condensed consolidated balance sheets and statement of changes in equity and net income attributable to noncontrolling interests in the accompanying condensed consolidated statement of operations.

The units of limited partnership of the Operating Partnership (“Operating Partnership Units”) and units of limited partnership of University Towers Operating Partnership, LP (“University Towers Operating Partnership Units”) are referred to as noncontrolling interests. The Trust follows the guidance issued by the Financial Accounting Standards Board (“FASB”) regarding the classification and measurement of redeemable securities. The Operating Partnership Units and the University Towers Operating Partnership Units are redeemable at the option of the holder and essentially have the same characteristics as common stock as they participate in net income and distributions. Accordingly, the Trust has determined that the Operating Partnership Units and the University Towers Operating Partnership Units meet the requirements to be classified outside of permanent equity and are therefore classified as redeemable noncontrolling interests in the accompanying condensed consolidated balance sheets and net income attributable to noncontrolling interests in the accompanying condensed consolidated statements of operations. The value of redeemable noncontrolling interests is reported at the greater of fair value or historical cost at the end of each reporting period. As of June 30, 2012, the Trust reported the redeemable noncontrolling interests at historical cost, which was greater than fair value of \$6.7 million. The Trust determined fair value using Level 2 inputs under the fair value hierarchy using market price adjusted for the noncontrolling interests’ portion of income (loss) and distributions. During the six months ended June 30, 2012, 43,832 Operating Partnership Units were redeemed for 43,832 shares of common stock.

## Earnings per share

Basic earnings per share is calculated by dividing net earnings available to shares of common stock by weighted average shares of common stock outstanding. Diluted earnings per share is calculated similarly, except that it includes the dilutive effect of the assumed exercise of potentially dilutive securities. The Trust follows the authoritative guidance regarding the determination of whether certain instruments are participating securities. All unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents are included in the computation of earnings per share under the two-class method. This results in shares of unvested restricted stock being included in the computation of basic earnings per share for all periods presented.

The following table reconciles the basic and diluted weighted average shares for the three and six months ended June 30, 2012:



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|                                                             | Three months<br>ended June 30,<br>2012 | Six months<br>ended June 30,<br>2012 |
|-------------------------------------------------------------|----------------------------------------|--------------------------------------|
| Basic weighted average shares of common stock outstanding   | 94,974,171                             | 93,906,974                           |
| Operating Partnership Units                                 | 859,905                                | 875,577                              |
| University Towers Operating Partnership Units               | 207,257                                | 207,257                              |
| Diluted weighted average shares of common stock outstanding | 96,041,333                             | 94,989,808                           |

As of June 30, 2011, the following potentially dilutive securities were outstanding but were not included in the computation of diluted earnings per share because the effects of their inclusion would be anti-dilutive:

|                                               |           |
|-----------------------------------------------|-----------|
| Operating Partnership Units                   | 903,738   |
| University Towers Operating Partnership Units | 207,257   |
| Total potentially dilutive securities         | 1,110,995 |

A reconciliation of the numerators and denominators for the basic and diluted earnings per share computation is not presented, as the Trust reported a loss from continuing operations for the three and six months ended June 30, 2011, and therefore the effect of the inclusion of all potentially dilutive securities would be anti-dilutive when computing diluted earnings per share; thus, the computation for both basic and diluted earnings per share is the same.

### **Goodwill and other intangible assets**

Goodwill is tested annually for impairment as of December 31, and is tested for impairment more frequently if events and circumstances indicate that the assets might be impaired. An impairment loss is recognized to the extent that the carrying amount exceeds the asset's fair value. The accumulated impairment loss recorded by the Trust as of December 31, 2008 is \$0.4 million. No additional impairment has been recorded through June 30, 2012. The carrying value of goodwill was \$3.1 million as of June 30, 2012 and December 31, 2011, of which \$2.1 million was recorded on the management services segment and \$0.9 million was recorded on the development consulting services segment. Goodwill is not subject to amortization. Other intangible assets generally include in-place leases and management contracts acquired in connection with acquisitions and are amortized over the estimated life of the lease/contract term. The carrying value of other intangible assets was \$0.2 million and \$0.9 million as of June 30, 2012 and December 31, 2011, respectively.

### **Comprehensive income**

The Trust follows the authoritative guidance issued by the FASB relating to the reporting and display of comprehensive income and its components. For all periods presented, comprehensive income is equal to net income.

## Revenue recognition

The Trust recognizes revenue related to leasing activities at the collegiate housing communities owned by the Trust, management fees related to managing third-party collegiate housing communities, development consulting fees related to the general oversight of third-party collegiate housing development and operating expense reimbursements for payroll and related expenses incurred for third-party collegiate housing communities managed by the Trust.

*Collegiate housing leasing revenue* — Collegiate housing leasing revenue is comprised of all activities related to leasing and operating the collegiate housing communities and includes revenues from leasing apartments by the bed, food services, parking lot rentals and providing certain ancillary services. This revenue is reflected in collegiate housing leasing revenue in the accompanying condensed consolidated statements of operations. Students are required to execute lease contracts with payment schedules that vary from annual to monthly payments. Generally, the Trust requires each executed leasing contract to be accompanied by a signed parental guarantee. Receivables are recorded when billed. Revenues and related lease incentives and nonrefundable application and service fees are recognized on a straight-line basis over the term of the contracts. At certain collegiate housing facilities, the Trust offers parking lot rentals to the tenants. The related revenues are recognized on a straight-line basis over the term of the related agreement.

*Third-party development services revenue* — The Trust provides development consulting services in an agency capacity with third parties whereby the fee is determined based upon the total construction costs. Total fees vary from 3-5% of the total estimated costs, and the Trust typically receives a portion of the fees up front. These fees, including the up-front fee, are recognized using the percentage of completion method in proportion to the contract costs incurred by the owner over the course of construction of the respective projects. Occasionally, the development consulting contracts include a provision whereby the Trust can participate in project savings resulting from successful cost management efforts. These revenues are recognized once all contractual terms have been satisfied and no future performance requirements exist. This recognition typically occurs after construction is complete. For the six months ended June 30, 2012 and 2011, there was \$0.2 million and \$0.5 million revenue recognized, respectively, related to cost savings agreements on development projects.

On July 14, 2010, the Trust entered into definitive agreements for the development, financing and management of a \$60.7 million, 20-story, 572-bed graduate collegiate housing complex at the Science + Technology Park at Johns Hopkins Medical Institute. The Trust developed and will manage the building, which was constructed on land owned by Johns Hopkins University and leased to a subsidiary of East Baltimore Development, Inc., a nonprofit partnership of private and public entities dedicated to Baltimore's urban revitalization. Under terms of the agreements, the Trust (a) received development and construction oversight fees and reimbursement of pre-development expenses, (b) invested in the form of an \$18.0 million second mortgage, (c) received a \$3.0 million fee for providing a repayment guarantee of the construction first mortgage and (d) received a 10-year management contract. As of June 30, 2012 and December 31, 2011, the note receivable for the second mortgage had a balance of \$18.0 million and is recorded in notes receivable in the accompanying condensed consolidated balance sheets. The carrying value of the note receivable approximates fair value, which was determined by the standard practice of modeling the contractual cash flows required under the instrument and discounting them back to their present value at the appropriate current risk adjusted interest rate. The fair value of our note receivable is classified as Level 3. The Trust does not have an ownership interest of any form that would require consolidation. Due to its financing commitments to the project along with other factors, the Trust will not recognize the development services revenue, guarantee fee revenue and interest income earned on the second mortgage until the second mortgage is repaid, and the Trust no longer has a substantial continuing financial involvement. If the construction loan and second mortgage had been repaid prior to June 30, 2012, the Trust would have recognized development services revenue net of costs of \$1.8 million, guarantee fee revenue of \$3.0 million and interest income of \$2.8 million since the commencement of the project.

*Third-party management services revenue* — The Trust enters into management contracts to manage third-party collegiate housing communities. Management revenues are recognized when earned in accordance with each management contract. Incentive management fees are recognized when the incentive criteria have been met.

*Operating expense reimbursements* — The Trust pays certain payroll and related costs to operate third-party collegiate housing communities that are managed by the Trust. Under the terms of the related management agreements, the third-party property owners reimburse these costs. The amounts billed to the third-party owners are recognized as revenue.

**Costs related to development consulting services**

Costs associated with the pursuit of third-party development consulting contracts are expensed as incurred, until such time that management has been notified of a contract award. At such time, the reimbursable costs are recorded as receivables and are reflected as other assets in the accompanying condensed consolidated balance sheets.

Costs directly associated with internal development projects are capitalized as part of the cost of the project.

### **Recent accounting pronouncements**

In May 2011, the FASB issued new authoritative guidance resulting in common fair value measurement and disclosure requirements in GAAP and International Financial Reporting Standards. Consequently some of the amendments clarify the FASB's intent about the application of existing fair value measurement requirements. Other amendments change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements. The guidance is effective for financial statements issued for fiscal years and interim periods beginning after December 15, 2011 and is applied prospectively. The adoption had no material impact on the Trust's condensed consolidated financial statements.

In September 2011, the FASB issued new authoritative guidance to simplify how entities test for goodwill impairment. The new guidance allows an entity the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If after assessing the totality of events or circumstances, an entity determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step goodwill impairment test is unnecessary. However, if the entity concludes otherwise, it is required to proceed with performing step one of the goodwill impairment test and step two if necessary. Under the new guidance, an entity is no longer permitted to carry forward its detailed calculation of a reporting unit's fair value as previously permitted. The guidance is effective for financial statements issued for fiscal years and interim periods beginning after December 15, 2011, and early adoption is permitted. The adoption had no material impact on the Trust's condensed consolidated financial statements.

In December 2011, the FASB updated the guidance related to *Property, Plant and Equipment- Real Estate Sales*, to eliminate diversity in practice regarding whether in substance real estate should be derecognized when the parent ceases to have a controlling financial interest in a subsidiary that is in substance real estate because of a default of the subsidiary on its nonrecourse debt. The updated guidance clarifies the accounting for such transactions is based on their substance rather than their form, and a reporting entity generally would not satisfy the requirements to derecognize the in substance real estate before the legal transfer of the real estate to the lender and the extinguishment of the related nonrecourse debt. The guidance is effective for financial statements issued for fiscal years and interim periods beginning after June 15, 2012. The adoption is not expected to have a material impact on the Trust's condensed consolidated financial statements.

### **3. Investments in unconsolidated entities**

During the six months ended June 30, 2012 and 2011, the Trust had investments, directly or indirectly, in the following active unconsolidated joint ventures and limited liability companies. These entities primarily own collegiate housing communities that are managed by the Trust, and the Trust participates in major operating decisions; therefore, the equity method of accounting is used to account for these investments.

University Village-Greensboro LLC, a Delaware limited liability company, 25% owned by the Operating Partnership;

WEDR Riverside Investors V, LLC, a Delaware limited liability company, 10% owned by the Operating Partnership; and

WEDR Stinson Investors V, LLC, a Delaware limited liability company, 10% owned by the Operating Partnership.

The following is a summary of financial information for the Trust's unconsolidated joint ventures, limited liability companies and limited partnerships for the six months ended June 30, 2012 and 2011:

|                                                        | 2012           | 2011    |
|--------------------------------------------------------|----------------|---------|
|                                                        | (In thousands) |         |
| Results of Operations:                                 |                |         |
| Revenues                                               | \$2,037        | \$5,654 |
| Net loss                                               | (2,336)        | (338 )  |
| Equity in earnings (losses) of unconsolidated entities | \$(301 )       | \$(18 ) |

As of June 30, 2012 and December 31, 2011, the Trust had \$123 and \$28,751 in investments in unconsolidated entities classified in other assets in the accompanying condensed consolidated balance sheets, respectively. As of June 30, 2012 and December 31, 2011, the Trust had \$1.4 million and \$0.9 million, respectively, in liabilities related to investments in unconsolidated entities where distributions exceeded contributions and equity in earnings; therefore, these investments are classified in accrued expenses in the accompanying condensed consolidated balance sheet (see Note 2).

During the six months ended June 30, 2012, the Trust purchased the majority of the assets from the WEDR Stinson Investors V, LLC joint venture for \$22.9 million (see Note 7). The Trust recognized \$0.1 million as its portion of the loss on the investment as part of equity in earnings (losses) of unconsolidated entities in the condensed consolidated statement of operations and recorded its share of the proceeds from the sale of \$45,000 as a distribution in the condensed consolidated financial statements.

#### **4. Debt**

##### **Revolving credit facility**

On September 21, 2011, the Operating Partnership entered into a Third Amended and Restated Credit Agreement (the “Third Amended Revolver”). The Third Amended Revolver amended and restated the existing secured revolving credit facility dated November 20, 2009. The previous facility (the “Second Amended Revolver”) had a maximum availability of \$95 million and was scheduled to mature on November 20, 2012. The Third Amended Revolver is unsecured, has a maximum availability of \$175 million and, within the first three years of the agreement, may be expanded to \$315 million upon satisfaction of certain conditions. The Third Amended Revolver matures on September 21, 2014, provided that the Operating Partnership may extend the maturity date for one year subject to certain conditions.

Availability under the Third Amended Revolver is limited to a “borrowing base availability” equal to the lesser of (i) 60% of the property asset value (as defined in the agreement) and (ii) the loan amount, which would produce a debt service coverage ratio of no less than 1.40. As of June 30, 2012, our borrowing base was \$175.0 million, and we had \$30.0 million outstanding under the Third Amended Revolver; thus, our remaining borrowing base availability was \$145.0 million.

The Trust serves as the guarantor for any funds borrowed by the Operating Partnership under the Third Amended Revolver. The interest rate per annum applicable to the Third Amended Revolver is, at the Operating Partnership’s option, equal to a base rate or the London InterBank Offered Rate (“LIBOR”) plus an applicable margin based upon our leverage. As of June 30, 2012, the interest rate applicable to the Third Amended Revolver was 1.88%. Due to the fact the Third Amended Revolver bears interest at variable rates, cost approximates the fair value. The fair value is estimated by discounting the expected cash flows based on estimated borrowing rates available to the Trust as of the measurement date. The fair value of the Trust’s Third Amended Revolver is estimated using Level 2 inputs.

The Third Amended Revolver contains customary affirmative and negative covenants and contains financial covenants that, among other things, require the Trust and its subsidiaries to maintain certain minimum ratios of “EBITDA” (earnings before payment or charges of interest, taxes, depreciation, amortization or extraordinary items) as compared to interest expense and total fixed charges. The financial covenants also include consolidated net worth and

leverage ratio tests. As of June 30, 2012, the Trust was in compliance with all covenants of the Third Amended Revolver.

The Trust is prohibited from making distributions in excess of 95% of funds from operations except to comply with the legal requirements to maintain its status as a REIT.

During the six months ended June 30, 2011, the Trust used \$3.7 million of the proceeds received in connection with the stock offering that was conducted in January 2011 (see Note 2) to repay the outstanding balance of the Second Amended Revolver.

### **Mortgage and construction debt**

As of June 30, 2012, the Trust had outstanding mortgage and construction indebtedness of \$310.6 million (excluding unamortized debt discount of \$0.1 million). Of the total, \$50.6 million and \$36.6 million relates to construction debt and variable rate mortgage debt, respectively, that is described below, and \$34.9 million pertains to outstanding mortgage debt that is secured by the underlying collegiate housing properties or leaseholds bearing interest at fixed rates ranging from 4.92% to 5.99%. The remaining \$188.5 million of the outstanding mortgage indebtedness relates to the Fannie Mae master secured credit facility that the Trust entered into on December 31, 2008 and expanded on December 2, 2009 (the "Master Secured Credit Facility"), which bears interest at a weighted average fixed rate of 5.88%. The Trust has estimated the fair value of the fixed rate mortgage debt utilizing present value techniques (Level 2 of the fair value hierarchy). As of June 30, 2012 and December 31, 2011, the estimated fair value of the fixed rate mortgage debt was \$234.6 million and \$299.3 million, respectively. The carrying value of the variable rate mortgage and construction debt approximates fair value. The fair value is estimated by discounting the expected cash flows based on estimated borrowing rates available to the Trust as of the measurement date. The fair value of the Trust's variable rate mortgage and construction debt is estimated using Level 2 inputs.



The Trust was in compliance with all financial covenants, including consolidated net worth and liquidity tests, contained in the Master Secured Credit Facility as of June 30, 2012. During the six months ended June 30, 2011, the Trust repaid \$35.5 million of variable rate debt that was outstanding under the Master Secured Credit Facility with proceeds from the sale of five collegiate housing communities (see Note 8).

In order to hedge the interest rate risk associated with the variable rate loans under the Master Secured Credit Facility, the Operating Partnership purchased an interest rate cap from the Royal Bank of Canada on December 22, 2008 for \$0.1 million. During the six months ended June 30, 2011, the Trust sold the cap back to the bank for \$45,000 when the variable rate debt discussed above was repaid. The notional amount of the cap was \$49.9 million and the cap rate was 7.0% per annum. The Operating Partnership chose not to designate the cap as a hedge and recognized all gains or losses associated with this derivative instrument in earnings. The fair value of the interest rate cap was determined using available market information or other appropriate valuation methodologies and was classified as level 2 as defined in the authoritative guidance.

As of June 30, 2012, the Trust had outstanding variable rate mortgage debt of \$36.6 million that was assumed in connection with the acquisition of the GrandMarc at Westberry Place collegiate housing community located at Texas Christian University. The interest rate per year applicable to the loan is equal to a base rate plus a 4.85% margin, in total not to exceed 7.5% per year, and principal and interest are paid on a monthly basis. The loan matures on January 1, 2020. As of June 30, 2012, the interest rate applicable to the loan was 4.89%.

As of June 30, 2012, the Trust had borrowed \$10.7 million on a construction loan related to the development of a wholly-owned collegiate housing community in Storrs, Connecticut (The Oaks on the Square). The interest rate per year applicable to the loan is, at the option of the Trust, equal to a base rate plus a 1.25% margin or LIBOR plus a 2.25% margin and is interest only through October 30, 2015. As of June 30, 2012, the interest rate applicable to the loan was 2.49%. On October 30, 2015, if certain conditions for extension are met, we have the option to extend the loan until October 31, 2016. On October 30, 2016, if certain conditions are met, we have the option to extend the loan until October 31, 2017. During the extension periods, if applicable, principal and interest are to be repaid on a monthly basis.

As of June 30, 2012, the Trust had borrowed \$25.2 million on a construction loan related to the development of a jointly owned collegiate housing community in Tuscaloosa, Alabama (East Edge). The Trust is the majority owner and managing member of the joint venture and will manage the community when completed. The loan bears interest equal to LIBOR plus a 240 basis point margin and is interest only through June 30, 2014. As of June 30, 2012, the interest rate applicable to the loan was 2.64%. On June 15, 2014, if the debt service ratio is not less than 1.15 to 1 and an extension fee of 12.5 basis points of the total outstanding principal is paid to the lender, the Trust may extend the loan until June 30, 2015. On June 15, 2015, if the debt service ratio is not less than 1.25 to 1 and an extension fee of 12.5 basis points of the total outstanding principal is paid to the lender, the Trust can extend the loan until June 30, 2016. During the first and second extension periods, if applicable, principal and interest are to be repaid on a monthly basis.

As of June 30, 2012, the Trust had \$8.6 million outstanding on a construction loan related to the development of a wholly-owned collegiate housing community at Syracuse University (University Village Apartments on Colvin). The loan bears interest equal to LIBOR plus a 110 basis point margin and was interest only through September 29, 2011. On September 29, 2011, the Trust extended the maturity date until September 29, 2013. Going forward, a debt service coverage ratio, calculated annually on a rolling 12 month basis, of not less than 1.25 to 1 must be maintained with principal and interest being repaid on a monthly basis. As of June 30, 2012 the interest rate applicable to the loan was 1.34%.

As of June 30, 2012, the Trust had \$6.1 million outstanding on a construction loan related to the development of a second wholly-owned collegiate housing community at Syracuse University (Campus West). The interest rate per year applicable to the loan is, at the option of the Trust, equal to a base rate plus a 0.95% margin or LIBOR plus a 1.95% margin and is interest only through November 30, 2014. As of June 30, 2012, the interest rate applicable to the loan was 2.19%. Once the project is complete and a debt service coverage ratio of not less than 1.30 to 1 is maintained, the interest rate will be reduced to a base rate plus a 0.80% margin or LIBOR plus a 1.80% margin at the option of the Trust. If certain conditions for extension are met, the Trust has the option to extend the loan twice for an additional year. During the extension periods, if applicable, principal and interest are to be repaid on a monthly basis.

During the six months ended June 30, 2012, the Trust repaid in full \$27.0 million of mortgage debt secured by the collegiate housing community referred to as The Lofts located near the University of Central Florida in Orlando, Florida. The debt had a fixed interest rate of 5.59% and was due to mature in May 2014. The Trust also repaid \$10.2 million and \$4.1 million on construction loans related to the development of a wholly-owned collegiate housing community near Southern Illinois University (The Reserve at Saluki Pointe-Carbondale). The loans bore interest equal to LIBOR plus 110 and 200 basis point margins, respectively, and were due to mature on June 28, 2012. The mortgage debt and construction loans were repaid with proceeds from the Third Amended Revolver and cash on hand.

During the six months ended June 30, 2012, the Trust repaid in full \$34.0 million of mortgage debt secured by the collegiate housing community referred to as Campus Lodge located near the University of Florida in Gainesville, Florida. The debt had a fixed interest rate of 6.97%, an effective interest rate of 5.48% and was due to mature in May 2012. The mortgage debt was repaid with cash on hand.

During the year ended December 31, 2011, the Trust repaid \$18.8 million of mortgage debt bearing a fixed interest rate of 5.55% that was due to mature in March 2012 and was secured by the collegiate housing community referred to as NorthPointe in Tucson, Arizona. The mortgage debt was repaid with proceeds received in connection with the stock offering that was conducted in November 2011 (see Note 2).

The scheduled maturities of outstanding mortgage and construction indebtedness as of June 30, 2012 are as follows:

| Fiscal Year Ending                       | (In thousands) |
|------------------------------------------|----------------|
| 2012 (6 months ending December 31, 2012) | \$ 1,843       |
| 2013                                     | 37,181         |
| 2014                                     | 58,725         |
| 2015                                     | 21,265         |
| 2016                                     | 67,650         |
| Thereafter                               | 123,937        |
| Total                                    | 310,601        |
| Unamortized debt discounts               | (94 )          |

Outstanding as of June 30, 2012, net of unamortized discounts   \$ 310,507

As of June 30, 2012, the outstanding mortgage and construction debt had a weighted average interest rate of 5.16% and carried a weighted average term to maturity of 4.3 years.

## 5. Segments

The Trust defines business segments by their distinct customer base and service provided. The Trust has identified three reportable segments: collegiate housing leasing, development consulting services and management services. Management evaluates each segment's performance based on net operating income, which is defined as income before depreciation, amortization, ground leases, impairment losses, interest expense (income), gains (losses) on extinguishment of debt, equity in earnings of unconsolidated entities and noncontrolling interests. The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies. Discontinued operations are not included in segment reporting as management addresses those items on a corporate level. The following table represents segment information for the six months ended June 30, 2012 and 2011:

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|                                                                                | Six Months Ended June 30, 2012<br>(In thousands) |                                       |                        |                              |           | Six Months Ended June 30, 2011   |                                       |                        |                              |           |
|--------------------------------------------------------------------------------|--------------------------------------------------|---------------------------------------|------------------------|------------------------------|-----------|----------------------------------|---------------------------------------|------------------------|------------------------------|-----------|
|                                                                                | Collegiate<br>Housing<br>Leasing                 | Development<br>Consulting<br>Services | Management<br>Services | Adjustments/<br>Eliminations | Total     | Collegiate<br>Housing<br>Leasing | Development<br>Consulting<br>Services | Management<br>Services | Adjustments/<br>Eliminations | Total     |
| Segment revenues:                                                              |                                                  |                                       |                        |                              |           |                                  |                                       |                        |                              |           |
| Collegiate housing leasing revenue                                             | \$67,715                                         | \$—                                   | \$—                    | \$—                          | \$67,715  | \$52,312                         | \$—                                   | \$—                    | \$—                          | \$52,312  |
| Third-party development consulting services                                    | —                                                | 503                                   | —                      | (158 )                       | 345       | —                                | 3,273                                 | —                      | (924 )                       | 2,349     |
| Third-party management services                                                | —                                                | —                                     | 1,572                  | —                            | 1,572     | —                                | —                                     | 1,579                  | —                            | 1,579     |
| Operating expense reimbursements                                               | —                                                | —                                     | —                      | 4,399                        | 4,399     | —                                | —                                     | —                      | 3,873                        | 3,873     |
| Total segment revenues                                                         | 67,715                                           | 503                                   | 1,572                  | 4,241                        | 74,031    | 52,312                           | 3,273                                 | 1,579                  | 2,949                        | 60,113    |
| Segment operating expenses:                                                    |                                                  |                                       |                        |                              |           |                                  |                                       |                        |                              |           |
| Collegiate housing leasing operations                                          | 30,677                                           | —                                     | —                      | —                            | 30,677    | 24,580                           | —                                     | —                      | —                            | 24,580    |
| General and administrative                                                     | —                                                | 1,820                                 | 1,416                  | (38 )                        | 3,198     | —                                | 1,540                                 | 1,298                  | (182 )                       | 2,656     |
| Reimbursable operating expenses                                                | —                                                | —                                     | —                      | 4,399                        | 4,399     | —                                | —                                     | —                      | 3,873                        | 3,873     |
| Total segment operating expenses                                               | 30,677                                           | 1,820                                 | 1,416                  | 4,361                        | 38,274    | 24,580                           | 1,540                                 | 1,298                  | 3,691                        | 31,109    |
| Segment net operating income (loss) <sup>(1)</sup>                             | \$37,038                                         | \$(1,317)                             | \$156                  | \$(120 )                     | \$35,757  | \$27,732                         | \$1,733                               | \$281                  | \$(742 )                     | \$29,004  |
| Total segment assets, as of June 30, 2012 and December 31, 2011 <sup>(2)</sup> | \$959,910                                        | \$5,000                               | \$7,212                | \$—                          | \$972,122 | \$879,199                        | \$3,007                               | \$5,399                | \$—                          | \$887,605 |

(1)

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The following is a reconciliation of the reportable segments' net operating income to the Trust's consolidated income (loss) before income taxes and discontinued operations for the six months ended June 30:

|                                                               | 2012     | 2011     |
|---------------------------------------------------------------|----------|----------|
| Net operating income for reportable segments                  | \$35,757 | \$29,004 |
| Other unallocated general and administrative expenses         | (4,115 ) | (2,969 ) |
| Depreciation and amortization                                 | (17,518) | (13,845) |
| Ground leases                                                 | (3,020 ) | (2,732 ) |
| Nonoperating expenses                                         | (8,166 ) | (10,211) |
| Equity in earnings ( losses) of unconsolidated entities       | (301 )   | (18 )    |
| Income (loss) before income taxes and discontinued operations | \$2,637  | \$(771 ) |

The increase in segment assets related to collegiate housing leasing is primarily related to the continued (2) development of eight communities for the ownership of the Trust and the purchase of the Reserve on Stinson collegiate housing community in Norman, Oklahoma during the six months ended June 30, 2012.

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The following table represents segment information for the three months ended June 30, 2012 and 2011:

|                                                    | Three Months Ended June 30, 2012<br>(In thousands) |                                       |                        |                              |          | Three Months Ended June 30, 2011 |                                       |                        |                              |          |
|----------------------------------------------------|----------------------------------------------------|---------------------------------------|------------------------|------------------------------|----------|----------------------------------|---------------------------------------|------------------------|------------------------------|----------|
|                                                    | Collegiate<br>Housing<br>Leasing                   | Development<br>Consulting<br>Services | Management<br>Services | Adjustments/<br>Eliminations | Total    | Collegiate<br>Housing<br>Leasing | Development<br>Consulting<br>Services | Management<br>Services | Adjustments/<br>Eliminations | Total    |
| Segment revenues:                                  |                                                    |                                       |                        |                              |          |                                  |                                       |                        |                              |          |
| Collegiate housing leasing revenue                 | \$33,109                                           | \$ —                                  | \$ —                   | \$ —                         | \$33,109 | \$25,613                         | \$ —                                  | \$ —                   | \$ —                         | \$25,613 |
| Third-party development consulting services        | —                                                  | 53                                    | —                      | (36 )                        | 17       | —                                | 1,631                                 | —                      | (558 )                       | 1,073    |
| Third-party management services                    | —                                                  | —                                     | 719                    | —                            | 719      | —                                | —                                     | 745                    | —                            | 745      |
| Operating expense reimbursements                   | —                                                  | —                                     | —                      | 2,281                        | 2,281    | —                                | —                                     | —                      | 2,018                        | 2,018    |
| Total segment revenues                             | 33,109                                             | 53                                    | 719                    | 2,245                        | 36,126   | 25,613                           | 1,631                                 | 745                    | 1,460                        | 29,449   |
| Segment operating expenses:                        |                                                    |                                       |                        |                              |          |                                  |                                       |                        |                              |          |
| Collegiate housing leasing operations              | 15,523                                             | —                                     | —                      | —                            | 15,523   | 12,266                           | —                                     | —                      | —                            | 12,266   |
| General and administrative                         | —                                                  | 944                                   | 719                    | (21 )                        | 1,642    | —                                | 783                                   | 631                    | (94 )                        | 1,320    |
| Reimbursable operating expenses                    | —                                                  | —                                     | —                      | 2,281                        | 2,281    | —                                | —                                     | —                      | 2,018                        | 2,018    |
| Total segment operating expenses                   | 15,523                                             | 944                                   | 719                    | 2,260                        | 19,446   | 12,266                           | 783                                   | 631                    | 1,924                        | 15,604   |
| Segment net operating income (loss) <sup>(1)</sup> | \$17,586                                           | \$ (891 )                             | \$ —                   | \$ (15 )                     | \$16,680 | \$13,347                         | \$ 848                                | \$ 114                 | \$ (464 )                    | \$13,845 |

<sup>(1)</sup> The following is a reconciliation of the reportable segments' net operating income to the Trust's consolidated income (loss) before income taxes and discontinued operations for the three months ended June 30:

2012      2011

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|                                                               |          |            |
|---------------------------------------------------------------|----------|------------|
| Net operating income for reportable segments                  | \$16,680 | \$13,845   |
| Other unallocated general and administrative expenses         | (1,938 ) | (1,601 )   |
| Depreciation and amortization                                 | (8,859 ) | (7,106 )   |
| Ground leases                                                 | (1,509 ) | (1,366 )   |
| Nonoperating expenses                                         | (3,729 ) | (4,879 )   |
| Equity in earnings (losses) of unconsolidated entities        | (38 )    | (23 )      |
| Income (loss) before income taxes and discontinued operations | \$607    | \$(1,130 ) |

## 6. Commitments and contingencies

The Operating Partnership entered into a letter of credit agreement in conjunction with the closing of the acquisition of a collegiate housing community at the University of Florida. As of June 30, 2012, the mortgage debt on this community was repaid (see Note 4), and the \$1.5 million letter of credit is no longer outstanding.



The Operating Partnership serves as non-recourse, carve-out guarantor, for secured third party debt in the amount of \$24.4 million, held by one unconsolidated joint venture. The Operating Partnership is liable to the lender for any loss, damage, cost, expense, liability, claim or other obligation incurred by the lender arising out of or in connection with certain non-recourse exceptions in connection with the debt. Pursuant to the respective operating agreement, the joint venture partner agreed to indemnify, defend and hold harmless the Trust with respect to such obligations, except to the extent such obligations were caused by the willful misconduct, gross negligence, fraud or bad faith of the Operating Partnership or its employees, agents or affiliates. Therefore, exposure under the guarantee for obligations not caused by the willful misconduct, gross negligence, fraud or bad faith of the Operating Partnership or its employees, agents or affiliates is not expected to exceed the Operating Partnership's proportionate interest in the related mortgage debt of \$6.1 million.

In connection with the development agreement entered into on July 14, 2010 for a project at the Science + Technology Park at Johns Hopkins Medical Institute (see Note 2), the Trust has committed to provide a guarantee of repayment of a \$42.0 million third-party construction loan for a \$3.0 million fee of which the carrying value approximates fair value. The guarantee fee will not be recognized until the second mortgage loan is repaid. The project will have a \$2.5 million reserve to fund any operating or debt service shortfalls that are to be replenished annually by East Baltimore Development, Inc., until a 1.10 debt service coverage ratio is achieved for twelve consecutive months. The second mortgage loan and related debt service are the first at risk if such reserve is not adequate to cover operating expenses and debt service on the construction loan.

In connection with the condominium agreement related to The Oaks on the Square project in Storrs, Connecticut (see Note 7) the Operating Partnership and LeylandAlliance LLC have jointly committed to provide a guarantee of repayment of a \$46.4 million construction loan to develop the residential and retail portions of the project. As of June 30, 2012 and December 31, 2011, \$14.0 million and \$1.5 million, respectively, had been drawn on the construction loan of which \$3.2 million and \$0.6 million, respectively, is attributable to LeylandAlliance LLC; these amounts are not included in our accompanying condensed consolidated financial statements.

As owners and operators of real estate, environmental laws impose ongoing compliance requirements on the Trust. The Trust is not aware of any environmental matters or liabilities with respect to the collegiate housing communities that would have a material adverse effect on the Trust's consolidated financial condition or results of operations.

In the normal course of business, the Trust is subject to claims, lawsuits and legal proceedings. While it is not possible to ascertain the ultimate outcome of such matters, in management's opinion, the liabilities, if any, are not expected to have a material effect on our financial position, results of operations or liquidity.

Under the terms of the limited partnership agreement of University Towers Operating Partnership, LP, so long as the contributing owners of such property hold at least 25% of the University Towers Partnership Units, the Trust has agreed to maintain certain minimum amounts of debt on the property to avoid triggering gain to the contributing

owners. If the Trust fails to do this, the Trust must repay the contributing owners the amount of taxes they incur.

After being awarded a development consulting contract, the Trust will enter into predevelopment consulting contracts with educational institutions to develop collegiate housing communities on their behalf. The Trust will enter into reimbursement agreements that provide for the Trust to be reimbursed for the predevelopment costs incurred prior to the institution's governing body formally approving the final development contract. As of June 30, 2012 and December 31, 2011, the Trust had reimbursable predevelopment costs of \$2.9 million and \$0.1 million, respectively, which are reflected in other assets in the accompanying condensed consolidated balance sheets.

## 7. Acquisition and development of real estate investments

In January 2012, the Trust completed the purchase of The Reserve on Stinson, near the University of Oklahoma in Norman, Oklahoma for a purchase price of \$22.9 million. The Operating Partnership owned a 10% equity investment in the entity that previously owned The Reserve on Stinson and also managed the property prior to the acquisition. The Trust funded the acquisition with existing cash, including cash proceeds generated by the November 2011 common stock offering (see Note 2). A summary follows of the fair value of the assets acquired and the liabilities assumed as of the date of acquisition (in thousands):

|                               | The Reserve on<br>Stinson |
|-------------------------------|---------------------------|
| Collegiate housing properties | \$ 22,722                 |
| Other assets                  | 232                       |
| Current liabilities           | (158 )                    |
| Total net assets acquired     | \$ 22,796                 |

The amount of The Reserve on Stinson's revenue and net loss included in the Trust's accompanying condensed consolidated statement of operations for the six months ended June 30, 2012, and the pro forma revenue and net loss of the combined entity had the acquisition date been January 1, 2011, are as follows:

|                                                                        | Revenue        | Net income | Net income<br>attributable to<br>common<br>stockholders per<br>share- basic and<br>diluted |
|------------------------------------------------------------------------|----------------|------------|--------------------------------------------------------------------------------------------|
|                                                                        | (in thousands) |            |                                                                                            |
| Actual from date of acquisition through 6/30/12                        | \$1,515        | \$ 260     | \$ —                                                                                       |
| 2012 supplemental pro forma earnings for 1/1/12-6/30/12 <sup>(1)</sup> | \$74,264       | \$ 3,535   | \$ 0.04                                                                                    |
| 2011 supplemental pro forma earnings for 1/1/11-6/30/11 <sup>(1)</sup> | \$61,693       | \$ 1,341   | \$ 0.02                                                                                    |

Supplemental pro forma earnings for the six months ended June 30, 2012 were adjusted to exclude \$0.2 million of (1) acquisition-related costs incurred in 2012. Supplemental pro forma earnings for the six months ended June 30, 2011 were adjusted to include these charges.

During the year ended December 31, 2011, the Trust completed the following eight collegiate housing community acquisitions:

| Name                                        | Primary University Served                      | Acquisition Date | # of Beds | # of Units | Purchase Price |
|---------------------------------------------|------------------------------------------------|------------------|-----------|------------|----------------|
| Wertland Square                             | University of Virginia Charlottesville, VA     | Mar 2011         | 152       | 50         | \$16.6 million |
| Jefferson Commons                           | University of Virginia Charlottesville, VA     | Mar 2011         | 82        | 22         | \$6.4 million  |
| Westminster House                           | University of California Berkeley, California  | May 2011         | 167       | 55         | \$16.0 million |
| University Village Towers <sup>(1)</sup>    | University of California Riverside, California | Sept 2011        | 554       | 149        | \$38.1 million |
| Lotus Lofts                                 | University of Colorado Boulder, Colorado       | Nov 2011         | 40        | 9          | \$6.0 million  |
| Irish Row                                   | University of Notre Dame South Bend, Indiana   | Nov 2011         | 326       | 127        | \$27.5 million |
| GrandMarc at Westberry Place <sup>(2)</sup> | Texas Christian University Ft. Worth, Texas    | Dec 2011         | 562       | 244        | \$55.1 million |
| 3949 Lindell                                | Saint Louis University St. Louis, Missouri     | Dec 2011         | 256       | 197        | \$28.5 million |

(1) The Operating Partnership owned a 10% equity investment in the entity that previously owned the University Village Towers collegiate housing community and also managed the property prior to the acquisition.

The Trust entered into a 53-year ground lease which requires an increase in annual rent expense to be determined (2) on predetermined adjustment dates based on the greater of 3% or the consumer price index for the life of the lease.

The Trust recognizes the minimum 3% annual increase in rent expense on a straight-line basis (see note 2).

Combined acquisition costs for these purchases were \$0.7 million. The Trust funded these acquisitions with assumed debt of \$36.9 million and existing cash, including cash proceeds generated by the January and November 2011 common stock offerings (see Note 2) and sales of collegiate housing communities (see Note 8). A summary follows of the fair values of the assets acquired and the liabilities assumed as of the dates of the acquisitions (in thousands):

|                               | University Village Towers | GrandMarc at Westberry Place | Other     | Total     |
|-------------------------------|---------------------------|------------------------------|-----------|-----------|
| Collegiate housing properties | \$ 37,881                 | \$ 53,935                    | \$100,386 | \$192,202 |
| Other assets                  | 268                       | 1,146                        | 570       | 1,984     |
| Current liabilities           | (286)                     | (434)                        | (1,654)   | (2,374)   |
| Mortgage debt                 | —                         | (36,930)                     | —         | (36,930)  |
| Total net assets acquired     | \$ 37,863                 | \$ 17,717                    | \$99,302  | \$154,882 |

The amount of revenue and net loss attributable to the 2011 acquisitions included in the Trust's accompanying condensed consolidated statement of operations for the six months ended June 30, 2011, and the pro forma revenue and net loss of the combined entity had the acquisition date been January 1, 2010, is as follows:



|                                                                        | Revenue        | Net income | Net income attributable to common stockholders per share- basic and Diluted |
|------------------------------------------------------------------------|----------------|------------|-----------------------------------------------------------------------------|
|                                                                        | (in thousands) |            |                                                                             |
| Actual from date of acquisition through 6/30/11                        | \$594          | \$ 53      | \$ —                                                                        |
| 2011 supplemental pro forma earnings for 1/1/11-6/30/11 <sup>(1)</sup> | \$68,732       | \$ 3,457   | \$ 0.05                                                                     |
| 2010 supplemental pro forma earnings for 1/1/10-6/30/10 <sup>(1)</sup> | \$63,721       | \$ (90 )   | \$ —                                                                        |

Supplemental pro forma earnings for the six months ended June 30, 2011 were adjusted to exclude \$0.7 million of (1) acquisition-related costs incurred in 2011. Supplemental pro forma earnings for the six months ended June 30, 2010 were adjusted to include these charges.

In March 2012, the financing was finalized for the agreement executed in June 2011 between the Trust and Summa West, LLC to develop, own and manage a new collegiate housing community near Arizona State University-Downtown Phoenix campus. The Trust is the majority owner and managing member of the joint venture and will manage the community once completed. As of June 30, 2012, the Trust and Summa West, LLC had incurred \$12.9 million in costs for the project. During the six months ended June 30, 2012, capitalized interest costs of approximately \$0.2 million and capitalized internal development project costs of approximately \$43,232 were incurred related to the development. The community is expected to open in the summer of 2013.

In January 2012, the Trust entered into a joint venture agreement with Landmark Properties to develop, own and manage a new cottage-style collegiate housing community near the University of Mississippi campus. The Trust is the majority owner and managing member of the joint venture and will manage the community once completed. As of June 30, 2012, the Trust and Landmark Properties had incurred \$6.6 million in costs for the project. During the six months ended June 30, 2012, capitalized interest costs of approximately \$0.1 million and capitalized internal development project costs of approximately \$35,724 were incurred related to the development. The community is expected to open in the summer of 2013.

In December 2011, the Trust was selected by the University of Kentucky to develop, own and manage new collegiate housing on its campus. This project will be financed through the Trust's On-Campus Equity Plan, or the ONE Plan<sup>SM</sup>. As of June 30, 2012, the Trust had incurred \$3.6 million in costs for the project, which is expected to open in the summer of 2013. During the six months ended June 30, 2012, the Trust capitalized interest costs and internal development costs of \$10,339 and \$0.1 million, respectively, related to the development.

As previously discussed, the Trust purchased a collegiate housing community near the University of Colorado, Boulder in November 2011. The Trust is developing adjacent housing on the existing land, which is expected to open in the summer of 2013. As of June 30, 2012, the Trust had incurred \$0.3 million in project costs. During the six

months ended June 30, 2012, the Trust capitalized interest costs and internal development project costs of \$3,378 and \$9,935, respectively, related to the development.

In February 2011, the Trust was selected by Syracuse University to develop, own and manage new collegiate housing on its campus. This will be the Trust's second on-campus development at Syracuse University and financed through the ONE Plan <sup>SM</sup>. As of June 30, 2012, the Trust had incurred \$21.7 million in costs for the project, which will open in summer 2012. During the six months ended June 30, 2012 and 2011, the Trust capitalized interest costs of \$0.2 million and \$10,550, respectively, and internal development project costs of \$31,616 and \$29,832, respectively, related to the development.

Also, in February 2011, the Trust executed an agreement with the Edwards Companies to develop, own and manage a new collegiate housing community at the University of Alabama in Tuscaloosa. The Edwards Companies is developing and constructing the housing, which will be owned jointly by the two companies. The Trust is the majority owner and managing member of the joint venture and will manage the community once completed. As of June 30, 2012, the Trust and the Edwards Companies had incurred \$36.7 million in costs for the project, which will open in summer 2012. During the six months ended June 30, 2012 and 2011, interest costs of approximately \$0.2 million and \$1,004, respectively, and internal development project costs of approximately \$30,411 and \$11,911, respectively, were capitalized related to the development.

In July 2010, the University of Texas Board of Regents selected the Trust to be the ground tenant to develop, own and manage a new high-rise collegiate housing community near the core of the University of Texas at Austin campus. As of June 30, 2012, the Trust had incurred \$18.9 million in costs for the project, which is expected to open in July of 2013. During the six months ended June 30, 2012 and 2011, the Trust capitalized interest costs of \$0.2 million and \$47,850, respectively, and internal development project costs of \$0.1 million and \$38,063, respectively, related to the development.

In September of 2010, LeylandAlliance LLC and the Trust entered into an agreement to develop the first two phases of Storrs Center, a mixed-use town center project, adjacent to the University of Connecticut. Scheduled to be completed in 2012 and 2013, the first two phases of Storrs Center will include commercial and residential offerings. The Trust will develop, own and manage the collegiate housing communities in these first two phases. As of June 30, 2012, the Trust had incurred \$27.6 million in project costs. During the six months ended June 30, 2012 and 2011, the Trust capitalized interest costs of \$0.4 million and \$38,758, respectively, and internal development project costs of \$0.1 million for both years, related to the development.

All costs related to the development of collegiate housing communities are classified as assets under development in the accompanying condensed consolidated balance sheets until the community is completed and opens. As of June 30, 2012, the Trust had expenditures for assets under development in accrued expenses of \$15.7 million. As of December 31, 2011, the Trust had expenditures for assets under development accrued in accounts payable and accrued expenses of \$1.7 million and \$5.3 million, respectively.

## **8. Disposition of real estate investments and discontinued operations**

In April and June 2011, the Trust sold the Collegiate Village, located in Macon, Georgia, and Clayton Place, located in Morrow, Georgia, respectively, for an aggregate sales price of \$28.0 million resulting in net proceeds of approximately \$27.8 million after closing costs.



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In October 2010, the Trust entered into two separate sales agreements to sell nine collegiate housing communities with a net carrying value of \$83.5 million. The first agreement closed on December 8, 2010 and included the following four properties:

- The Gables, serving Western Kentucky University in Bowling Green, Kentucky;
- Western Place, serving Western Kentucky University in Bowling Green, Kentucky;
- Berkeley Place, serving Clemson University in Clemson, South Carolina; and
- The Pointe at Southern, serving Georgia Southern University in Statesboro, Georgia.

The gross sales price for the first agreement was \$38.7 million with net proceeds of approximately \$20.5 million after repayment of related debt of \$17.3 million and other closing costs.

The second agreement closed on January 19, 2011 and included the following five properties :

- Troy Place, serving Troy University in Troy, Alabama;
- The Reserve at Jacksonville, serving Jacksonville State University in Jacksonville, Alabama;
- The Reserve at Martin, serving University of Tennessee at Martin in Martin, Tennessee;
- The Chase at Murray, serving Murray State University in Murray, Kentucky; and
- Clemson Place, serving Clemson University in Clemson, South Carolina.

The sales price was \$46.1 million, and the Trust received net proceeds of approximately \$29.7 million after the repayment of related debt of \$16.1 million and other closing costs.

Accordingly, the results of operations of all eleven properties are included in discontinued operations in the accompanying consolidated statements of operations for all periods presented. The Trust ceased depreciation on the properties when they met the held for sale criteria.

On April 7, 2009, the Trust sold the College Station collegiate housing community for a sales price of \$2.6 million. The Trust received proceeds of \$0.3 million and a note receivable of \$2.3 million. Payments of principal and interest, at a rate of 6% per annum, were due on a monthly basis, and the resulting net gain on disposition of approximately \$0.4 million was deferred against the note receivable until the debt was paid in full. In April 2012, the note receivable was repaid at a discount, and the Trust recognized a gain on the sale of \$0.2 million.

The following table summarizes the income (loss) from discontinued operations, net of noncontrolling interests, and the related realized gains on sales of real estate from discontinued operations, net of noncontrolling interests, for the three and six months ended June 30, 2012 and 2011 (in thousands):

|                                                                                          | Six months<br>ended<br>June 30,<br>2012 | Six months<br>ended<br>June 30,<br>2011 |
|------------------------------------------------------------------------------------------|-----------------------------------------|-----------------------------------------|
| Collegiate housing leasing revenue                                                       | \$ —                                    | \$ 1,130                                |
| Collegiate housing leasing operating expenses                                            | 3                                       | (581 )                                  |
| Depreciation and amortization                                                            | —                                       | (501 )                                  |
| Interest expense                                                                         | —                                       | (76 )                                   |
| Amortization of deferred financing costs                                                 | —                                       | (2 )                                    |
| Loss on extinguishment of debt                                                           | —                                       | (406 )                                  |
| Income tax expense                                                                       | —                                       | (17 )                                   |
| Noncontrolling interests                                                                 | —                                       | 6                                       |
| Income (loss) from discontinued operations attributable to Education Realty Trust, Inc.  | \$ 3                                    | \$ (447 )                               |
| Gain on sale of collegiate housing property                                              | 171                                     | 2,388                                   |
| Noncontrolling interests                                                                 | (2 )                                    | (30 )                                   |
| Gain on sale of collegiate housing property attributable to Education Realty Trust, Inc. | \$ 169                                  | \$ 2,358                                |

|                                                                                          | Three months<br>ended<br>June 30,<br>2012 | Three months<br>ended<br>June 30,<br>2011 |
|------------------------------------------------------------------------------------------|-------------------------------------------|-------------------------------------------|
| Collegiate housing leasing revenue                                                       | \$ —                                      | \$ 212                                    |
| Collegiate housing leasing operating expenses                                            | (6 )                                      | (145 )                                    |
| Depreciation and amortization                                                            | —                                         | (235 )                                    |
| Interest expense                                                                         | —                                         | —                                         |
| Amortization of deferred financing costs                                                 | —                                         | —                                         |
| Loss on extinguishment of debt                                                           | —                                         | —                                         |
| Income tax expense                                                                       | —                                         | (2 )                                      |
| Noncontrolling interests                                                                 | —                                         | 2                                         |
| Loss from discontinued operations attributable to Education Realty Trust, Inc.           | \$ (6 )                                   | \$ (168 )                                 |
| Gain on sale of collegiate housing property                                              | 171                                       | 1,445                                     |
| Noncontrolling interests                                                                 | 2                                         | (18 )                                     |
| Gain on sale of collegiate housing property attributable to Education Realty Trust, Inc. | \$ 169                                    | \$ 1,427                                  |

## 9. Incentive plan

On May 4, 2011, the Trust's stockholders approved the Education Realty Trust, Inc. 2011 Omnibus Equity Incentive Plan (the "2011 Plan"). The purpose of the 2011 Plan is to promote the interests of the Trust and its stockholders by attracting, motivating and retaining talented executive officers, employees and directors of the Trust and linking their compensation to the long-term interests of the Trust and its stockholders. The 2011 Plan replaced the Education Realty Trust, Inc. 2004 Incentive Plan ("2004 Plan") in its entirety and authorizes the grant of the 315,000 shares that remained available for grant under the 2004 Plan, as well as 3,147,500 additional shares. As of June 30, 2012, the Trust had 3,315,339 shares of its common stock reserved for issuance pursuant to the 2011 Plan. Automatic increases in the number of shares available for issuance are not provided. The 2011 Plan provides for the grant of stock options, restricted stock, restricted stock units ("RSUs"), stock appreciation rights, other stock-based incentive awards to employees, directors and other key persons providing services to the Trust.

A restricted stock award is an award of the Trust's common stock that is subject to restrictions on transferability and other restrictions as the Trust's compensation committee determines in its sole discretion on the date of grant. The restrictions may lapse over a specified period of employment or the satisfaction of pre-established criteria as our compensation committee may determine. Except to the extent restricted under the award agreement, a participant awarded restricted shares will have all of the rights of a stockholder as to those shares, including, without limitation, the right to vote and the right to receive dividends or distributions on the shares. Restricted stock is generally taxed at the time of vesting. As of June 30, 2012 and December 31, 2011, unearned compensation related to restricted stock totaled \$1.5 million and \$1.2 million, respectively, and will be recorded as expense over the applicable vesting period. The value is determined based on the market value of the Trust's common stock on the grant date. During the six months ended June 30, 2012 and 2011, compensation expense of \$0.5 million and \$0.4 million, respectively, was recognized in the accompanying condensed consolidated statements of operations, related to the vesting of restricted stock. Effective January 1, 2012 and January 1, 2011, the Trust adopted the 2012 Long-Term Incentive Plan (the "2012 LTIP") and 2011 Long-Term Incentive Plan (the "2011 LTIP"), respectively. The purpose of the 2012 LTIP and 2011

LTIP is to attract, retain and motivate the executive officers and certain key employees of the Trust and to promote the long-term growth and profitability of the Trust. On January 1, 2012 and 2011, the Trust issued 70,595 and 135,500, respectively, of time vested restricted stock to executives and key employees under the 2012 LTIP and 2011 LTIP. The restricted stock granted under the 2012 LTIP and the 2011 LTIP will vest ratably over three years as long as the participants remain employed by the Trust.

A RSU award is an award that will vest based upon the Trust's achievement of total stockholder returns at specified levels as compared to the average total stockholder returns of a peer group of companies and/or the National Association of Real Estate Investment Trusts Index over three years (the "Performance Period"). At the end of the Performance Period, the compensation committee of the Board will determine the level and the extent to which the performance goal was achieved. RSUs that satisfy the performance goal will be converted into fully-vested shares of the Trust's common stock and the Trust will receive a tax deduction for the compensation expense at the time of vesting. Prior to vesting, the participants are not eligible to vote or receive dividends or distributions on the RSUs. On January 1, 2012, the Trust granted the specific dollar amount of \$1.1 million of performance vested RSUs to executives and key employees under the 2012 LTIP described above. The number of shares of common stock to be issued will be determined on the date of vesting. On January 1, 2011, the Trust granted 203,250 performance vested RSUs to executives and key employees under the 2011 LTIP described above. As of June 30, 2012 and December 31, 2011, unearned compensation related to RSUs totaled \$1.5 million and \$0.8 million, respectively, and will be recorded as expense over the applicable vesting period. The value was determined using a Monte Carlo simulation technique. During the six months ended June 30, 2012 and 2011, compensation expense of \$0.4 million and \$0.3 million was recognized in the accompanying condensed consolidated statement of operations, related to the vesting of RSUs.

Total stock-based compensation recognized in general and administrative expense in the accompanying condensed consolidated statements of operations for the six months ended June 30, 2012 and 2011 was \$1.1 million and \$0.8 million, respectively. A summary of the stock-based incentive plan activity as of and for the six months ended June 30, 2012 is as follows:

|                                     | Stock<br>Awards(1)(1) |
|-------------------------------------|-----------------------|
| Outstanding as of December 31, 2011 | 1,035,086             |
| Granted                             | 102,882               |
| Retired                             | —                     |
| Outstanding as of June 30, 2012     | 1,137,968             |
| Vested as of June 30, 2012          | 544,060               |

(1) Includes restricted stock and RSU awards where a specific amount of RSUs were granted.

## 10. Subsequent events

Our Board declared a distribution of \$0.10 per share of common stock for the quarter ended on June 30, 2012. The distribution is payable on August 15, 2012 to stockholders of record at the close of business on July 31, 2012.

In July 2012, the collegiate housing community referred to as 3949 Lindell located in St. Louis, Missouri was damaged by fire and is currently empty. The community was insured, and it is the Trust's intent to rebuild.



## **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.**

*The following discussion should be read in conjunction with the financial statements and notes thereto appearing elsewhere in this Quarterly Report on Form 10-Q ("Report") and the audited consolidated financial statements and notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations contained in our Annual Report on Form 10-K for the year ended December 31, 2011. Certain statements contained in this Report are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, including but not limited to statements related to plans for future acquisitions, our business and investment strategy, market trends and projected capital expenditures. When used in this Report, the words "expect," "anticipate," "intend," "plan," "believe," "seek," "estimate," "would," "could," "should," and similar expressions are generally intended to identify forward-looking statements. You should not place undue reliance on these forward-looking statements, which reflect our opinions only as of the date of this Report. We assume no obligation to update or supplement forward-looking statements that become untrue because of subsequent events. Forward-looking statements are subject to risks, uncertainties and other factors that could cause actual results to differ materially from future results expressed or implied by such forward-looking statements. For further information about these and other factors that could affect our future results, please see the "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2011 and "Part II, Item 1A. Risk Factors" below. Investors are cautioned that any forward-looking statements are not guarantees of future performance and involve risks and uncertainties, and that actual results may differ materially from those contemplated by such forward-looking statements.*

*All references to "we," "our," "us," "EdR," "Trust" and the "Company" in this Report mean Education Realty Trust, Inc. and its consolidated subsidiaries, except where it is made clear that the term means only Education Realty Trust, Inc.*

### **Overview**

We are a self-managed and self-advised real estate investment trust ("REIT") engaged in the ownership, acquisition and management of high-quality collegiate housing communities. We also provide collegiate housing management and development consulting services to universities, charitable foundations and other third parties. We believe that we are one of the largest private owners, developers and managers of high-quality collegiate housing communities in the United States in terms of total beds both owned and under management.

We earn income from rental payments we receive as a result of our ownership of collegiate housing communities. We also earn income by performing property management services and development/construction management consulting services for third parties through our Management Company and our Development Company, respectively.

We have elected to be taxed as a REIT for federal income tax purposes.

## **Our Business Segments**

We define business segments by their distinct customer base and the service provided. Management has identified three reportable segments: collegiate housing leasing, development consulting services and management services. We evaluate each segment's performance based on net operating income, which is defined as income before depreciation, amortization, ground leases, impairment losses, interest expense (income), gains (losses) on extinguishment of debt, equity in earnings of unconsolidated entities, noncontrolling interests and discontinued operations. The accounting policies of the reportable segments are described in more detail in the summary of significant accounting policies in the footnotes to the accompanying condensed consolidated financial statements.

### **Collegiate housing leasing**

Collegiate housing leasing revenue represented approximately 97.0% of our revenue, excluding operating expense reimbursements, for the six months ended June 30, 2012. Unlike multi-family housing where apartments are leased by the unit, collegiate-housing communities are typically leased by the bed on an individual lease liability basis. Individual lease liability limits each resident's liability to his or her own rent without liability for a roommate's rent. The number of lease contracts that we administer is therefore equivalent to the number of beds occupied rather than the number of apartment units occupied. A parent or guardian is required to execute each lease as a guarantor unless the resident provides adequate proof of income and/or pays a deposit, which is usually equal to two months rent.



Due to our predominantly private bedroom accommodations, the high level of student-oriented amenities, the fact that units are furnished and in most cases rent includes utilities, cable television and internet service and because of the individual lease liability, we believe our communities can typically command higher per-unit and per-square foot rental rates than most multi-family communities in the same geographic markets. We are also typically able to command higher rental rates than on-campus collegiate housing, which tends to offer fewer amenities.

The majority of our leases commence mid-August and terminate the last day of July. These dates generally coincide with the commencement of the universities' fall academic term and the completion of the subsequent summer school session. As such, we are required to re-lease each community in its entirety each year, resulting in significant turnover in our tenant population from year to year. In 2011 and 2010, approximately 72.6% and 70.0%, respectively, of our leased beds were to students who were first-time residents at our communities. As a result, we are highly dependent upon the effectiveness of our marketing and leasing efforts during the annual leasing season that typically begins in November and ends in August of each year. Our communities' occupancy rates are therefore typically stable during the August to July academic year but are susceptible to fluctuation at the commencement of each new academic year.

Prior to the commencement of each new lease period, mostly during the first two weeks of August but also during September at some communities, we prepare the units for new incoming tenants. Other than revenue generated by in-place leases for returning tenants, we do not generally recognize lease revenue during this period referred to as "Turn" as we have no leases in place. In addition, we incur significant expenses during Turn to make our units ready for occupancy. These expenses are recognized when incurred. This Turn period results in seasonality in our operating results during the third quarter of each year.

### **Development consulting services**

For the six months ended June 30, 2012, revenue from our development consulting services represented approximately 0.7% of our revenue, excluding operating expense reimbursements. We provide development consulting services primarily to colleges and universities seeking to modernize their on-campus collegiate housing communities but also to the Trust and other third-party investors. Our development consulting services typically include the following:

- market analysis and evaluation of collegiate housing needs and options;
- cooperation with college or university in architectural design;

negotiation of ground lease, development agreement, construction contract, architectural contract and bond documents;

- oversight of architectural design process;
- coordination of governmental and university plan approvals;
- oversight of construction process;
- design, purchase and installation of furniture;
- pre-opening marketing to students; and
- obtaining final approvals of construction.

Fees for these services are typically 3-5% of the total cost of a project and are payable over the life of the construction period, which in most cases is one to two years in length. Occasionally, the development consulting contracts include a provision whereby the Trust can participate in project savings resulting from successful cost management efforts. These revenues are recognized once all contractual terms have been satisfied and no future performance requirements exist. This typically occurs after construction is complete. As part of the development agreements, there are certain costs we pay on behalf of universities or third-party investors. These costs are included in reimbursable operating expenses and are required to be reimbursed to us by the universities or third-party investors. We recognize the expense and revenue related to these reimbursements when incurred. These operating expenses are wholly reimbursable and therefore not considered by management when analyzing the operating performance of our development consulting services business.

### **Management services**

For the six months ended June 30, 2012, revenue from our management services segment represented approximately 2.3% of our revenue, excluding operating expense reimbursements. We provide management services for collegiate housing communities owned by educational institutions, charitable foundations, the Trust and others. Our management services typically cover all aspects of community operations, including residence life and student development, marketing, leasing administration, strategic relationships, information systems and accounting services. We provide these services pursuant to multi-year management agreements under which management fees are typically 3-5% of leasing revenue. These agreements usually have an initial term of two to five years with renewal options of like terms. As part of the management agreements, there are certain payroll and related expenses that we pay on behalf of the property owners. These costs are included in reimbursable operating expenses and are required to be reimbursed to us by the property owners. We recognize the expense and revenue related to these reimbursements when incurred. These operating expenses are wholly reimbursable and therefore not considered by management when analyzing the operating performance of our management services business.

### **Trends and Outlook**

#### **Rents and occupancy**

We manage our communities to maximize revenues, which are primarily driven by two components: rental rates and occupancy rates. We customarily adjust rental rates in order to maximize revenues, which in some cases results in a lower occupancy rate, but in most cases results in stable or increasing revenue from the community. As a result, a decrease in occupancy may be offset by an increase in rental rates and vice versa and may not be material to our operations. Periodically, certain of our markets experience increases in new on-campus collegiate housing provided by colleges and universities and off-campus collegiate housing provided by private owners. This additional collegiate housing both on and off campus can create competitive pressure on our rental rates and occupancy.

Our communities' occupancy rates are typically stable during the August to July academic year but are susceptible to fluctuation at the commencement of each new academic year. For the six months ended June 30, 2012, same-community revenue per available bed increased to \$451 and same community physical occupancy increased to 91.7% compared to revenue per available bed of \$419 and physical occupancy of 90.5% for the six months ended June 30, 2011. The results represent averages for the Trust's portfolio, which are not necessarily indicative of every community in the portfolio. Individual communities can and do perform both above and below these averages, and, at times, an individual community may experience a decline in total revenue due to local university and economic conditions. Our management focus is to assess these situations and address them quickly in an effort to minimize the Trust's exposure and reverse any negative trend.

As of July 24, 2012, same-community preleasing for the 2012/2013 lease term was 220 basis points behind prior year in occupancy with 83.9% of beds preleased for fall. Net rental rates for the 2012/2013 lease term are currently projected to be approximately 5.0% ahead of prior lease term.

### **Development consulting services**

The Trust has historically earned more than \$5.0 million annually in third-party development revenue. However, as a result of a deterioration in the credit markets, which began in late 2008, financing of new projects became harder to obtain, and the Trust's third-party development revenue declined from \$8.2 million for the year ended December 31, 2009 to \$2.5 million in 2010 and then rebounded to \$4.1 million in 2011. Despite the increase in 2011, the Trust currently expects 2012 revenue to be as low as \$0.5 million. Beginning in the summer of 2010 our development team began seeing improvement in the credit markets and an increase in interest from colleges and universities that are considering new collegiate housing. We also continue to receive requests for proposals on new development projects. This improvement in the development consulting market is evidenced by the Trust's active development projects, one participating development, the completion of two third-party developments in the first quarter of 2012 and the award of a new third-party development at Clarion University of Pennsylvania in the second quarter of 2012.

We develop collegiate housing communities for our ownership, and we plan to increase self-development activity going forward. The On-Campus Equity Plan, or The ONE Plan <sup>SM</sup>, is our private equity program for universities, which allows universities to use the Trust's equity and financial stability to develop and revitalize campus housing while preserving their credit capacity for other campus projects. This program is designed to provide the Trust's equity to solve a university's housing needs through a ground lease structure where the Trust owns the land improvements and operates the community. Others in the industry have a similar program and to date the Trust has four ONE Plan <sup>SM</sup> projects completed or underway. In December 2011, we were selected by the University of Kentucky (UK) to develop, own and manage a multi-phase project aimed at revitalizing UK's on-campus housing under the ONE Plan <sup>SM</sup>. Construction on New Central Residence Hall, the first building in the multi-phase project, is progressing as planned. The 601-bed, two-building, four-story community will be available for occupancy in the summer of 2013. We are currently in the planning stages for the August 2014 deliveries, which are expected to be the addition of approximately 2,000 beds in four locations on campus. The Kentucky legislature has authorized the planned August 2014 deliveries, and it is expected that definitive agreements and approval from the UK board of trustees will be obtained this fall. We view our partnership with UK as a defining moment, not only for EdR, but also for our industry. Most state universities face many of the same challenges as UK, reduced support from constrained state budgets, aged on campus housing and demands on institutional funds for academic and support service spaces. This declining state support for higher education is the norm rather than the exception. These external factors provide a great opportunity for companies such as ours. The volume of discussions we are having with other universities has increased over the last year as additional universities investigate this type of structure to replace their aging on campus housing stock. We expect the volume of true third-party development contracts to be impacted as more universities avail themselves of this new program.

The amount and timing of future revenue from development consulting services will be contingent upon our ability to successfully compete in public colleges and universities' competitive procurement processes, our ability to successfully structure financing of these projects and our ability to ensure completion of construction within agreed construction timelines and budgets. To date, we have completed construction on all of our development projects in time for their targeted occupancy dates.

**Collegiate housing operating costs**

The Trust implemented focused cost control measures in late 2008 that drove a same-community operating expense decline of 4.6% for the year ended December 31, 2009 and helped keep operating expenses relatively flat during 2010 with an increase of approximately 0.1%. During the year ended December 31, 2011, same-community operating expenses increased approximately 2.9% compared to the year ended December 31, 2010, which included a 2.2% increase in direct operating expenses and a 5.9% increase in fixed costs primarily as a result of tax refunds received in 2010. For the six months ended June 30, 2012, same-community operating expenses increased approximately 3.5% compared to the same period in the prior year which is in line with our expectation and a reasonable level of growth for the foreseeable future.

## **General and administrative costs**

Historically, we have presented all general and administrative (“G&A”) costs, including regional and corporate costs of supporting our communities, in G&A in our consolidated statement of operations. Beginning with the three months ended March 31, 2012, we are reporting the costs to manage our owned portfolio as part of our collegiate housing operating costs and not as part of G&A costs, and previous periods presented have been reclassified for consistent presentation and comparability (see Note 2 to the accompanying condensed consolidated financial statements). We believe the new presentation improves comparability within the industry and provides a better reflection of the total cost to operate a property. G&A costs for the six months ended June 30, 2012 were \$3.7 million, before reorganization, development pursuit costs and acquisition costs, an increase of \$0.8 million, or 29.4%, when compared to the same period in the prior year. This increase is largely due to costs associated with the growth of our wholly-owned collegiate housing portfolio, the growth in our development activity (including owned and third-party) and normal inflationary pressures.

## **Asset Repositioning and Capital Recycling**

We continue to reposition and improve our owned portfolio as follows:

In 2010 and 2011 we sold twelve communities for a combined sales price of \$112.8 million. These communities were located at mostly smaller universities with limited barriers to entry (see Note 8 to the condensed consolidated financial statements);

Over the last year we purchased \$256 million of assets within walking distance of universities such as the University of Virginia, University of California–Berkeley, Notre Dame, Texas Christian University and St. Louis University (see Note 7 to the condensed consolidated financial statements);

We currently have eight active owned developments with our share of aggregate development costs of \$301 million within walking distance of universities such as University of Alabama, University of Connecticut and directly on the campuses of Syracuse University, University of Kentucky and the University of Texas at Austin (see note 7 to the condensed consolidated financial statements);

We have improved our portfolio’s median distance to edge of campus to 0.3 miles;  
We have improved our portfolio’s median full-time undergraduate enrollment of universities served to 25,200; and  
We are currently in the process of selling two assets that are an average of 3.3 miles from campus with limited barriers to entry in the market.

We believe these transactions helped the Trust recycle capital from non-strategic assets to vibrant, younger collegiate communities at larger universities. We believe these steps improved the quality of the Trust’s portfolio and positioned the Trust for better long-term growth potential.

## **Critical Accounting Policies**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States (“GAAP”) requires management to make estimates and assumptions in certain circumstances that affect amounts reported in our financial statements and related notes. In preparing these financial statements, management has utilized all available information, including its past history, industry standards and the current economic environment, among other factors, in forming its estimates and judgments of certain amounts included in the financial statements, giving due consideration to materiality. The ultimate outcome anticipated by management in formulating its estimates may not be realized. Application of the critical accounting policies below involves the exercise of judgment and use of assumptions as to future uncertainties and, as a result, actual results could differ from these estimates. In addition, other companies in similar businesses may utilize different estimation policies and methodologies, which may impact the comparability of our results of operations and financial condition to those companies.

### **Collegiate housing leasing revenue recognition**

Collegiate housing leasing revenue is comprised of all revenue related to the leasing activities at our collegiate housing communities and includes revenues from leasing apartments by the bed, food services, parking space rentals and certain ancillary services.



Students are required to execute lease contracts with payment schedules that vary from per semester to monthly. Generally, a parental guarantee must accompany each executed contract. Receivables are recorded when due, while leasing revenue and related lease incentives/concessions and nonrefundable application and service fees are recognized on a straight-line basis over the term of the contracts. Balances are considered past due when payment is not received on the contractual due date. Allowances for doubtful accounts are established by management when it is determined that collection is doubtful.

### **Revenue and cost recognition of development consulting services**

Costs associated with the pursuit of third-party development consulting contracts are expensed as incurred until such time as we have been notified of a contract award or reimbursement has been otherwise guaranteed by the customer. At such time, the reimbursable portion of such costs is recorded as a receivable. Development consulting revenues are recognized using the percentage of completion method as determined by construction costs incurred relative to the total estimated construction costs. Occasionally, our development consulting contracts include a provision whereby we can participate in project savings resulting from our successful cost management efforts. We recognize these revenues once all contractual terms have been satisfied and we have no future performance requirements. This typically occurs after construction is complete. Costs associated with development consulting services are expensed as incurred. We generally receive a significant percentage of our fees for development consulting services upon closing of the project financing, a portion of the fee over the construction period and the balance upon substantial completion of construction. Because revenue from these services is recognized for financial reporting purposes utilizing the percentage of completion method, differences occur between amounts received and revenues recognized. Differences also occur between amounts recognized for tax purposes and those recognized for financial reporting purposes.

We also periodically enter into joint venture arrangements whereby we provide development consulting services to third-party collegiate housing owners in an agency capacity. We recognize our portion of the earnings in each joint venture based on our ownership interest, which is reflected after net operating income in our condensed consolidated statement of operations as equity in earnings of unconsolidated entities. Our revenue and operating expenses could fluctuate from period to period based on the extent to which we utilize joint venture arrangements to provide third-party development consulting services.

### **Collegiate housing property acquisitions and dispositions**

Land, land improvements, buildings and improvements and furniture, fixtures and equipment are recorded at cost. Buildings and improvements are depreciated over 15 to 40 years, land improvements are depreciated over 15 years and furniture, fixtures and equipment are depreciated over 3 to 7 years. Depreciation is computed using the straight-line method for financial reporting purposes.

Results of operations for acquired collegiate housing communities are included in the Trust's results of operations from the respective dates of acquisition. Appraisals, estimates of cash flows and valuation techniques are used to allocate the purchase price of acquired property between land, land improvements, buildings and improvements, furniture, fixtures and equipment and identifiable intangibles such as amounts related to in-place leases. The Trust recognizes pre-acquisition costs, which include legal and professional fees and other third-party costs related directly to the acquisition of a community, when they are incurred.

Management assesses impairment of long-lived assets to be held and used whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Management uses an estimate of future undiscounted cash flows of the related asset based on its intended use to determine whether the carrying value is recoverable. If the Trust determines that the carrying value of an asset is not recoverable, the fair value of the asset is estimated and an impairment loss is recorded to the extent the carrying value exceeds estimated fair value. Management estimates fair value using discounted cash flow models, market appraisals if available, and other market participant data.

When a collegiate housing community has met the criteria to be classified as held for sale, the fair value less cost to sell such asset is estimated. If fair value less cost to sell the asset is less than the carrying amount of the asset, an impairment charge is recorded for the estimated loss. Depreciation expense is no longer recorded once a collegiate housing community has met the held for sale criteria. The related carrying value of the community is recorded as held for sale in the consolidated balance sheet, and operations of collegiate housing communities that are sold or classified as held for sale are recorded as part of discontinued operations for all periods presented.

## **Repairs and maintenance**

The costs of ordinary repairs and maintenance are charged to operations when incurred. Major improvements that extend the life of an asset beyond one year are capitalized and depreciated over the remaining useful life of the asset. Planned major repair, maintenance and improvement projects are capitalized when performed. In some circumstances, the lenders require us to maintain a reserve account for future repairs and capital expenditures. These amounts are not available for current use and are recorded as restricted cash on our condensed consolidated balance sheets.

## **Use of estimates**

Significant estimates and assumptions are used by management in determining the recognition of third-party development consulting revenue under the percentage of completion method, useful lives of collegiate housing assets, the valuation of goodwill, the initial valuations and underlying allocations of purchase price in connection with collegiate housing property acquisitions, the determination of fair value for impairment assessments, and in recording the allowance for doubtful accounts. Actual results could differ from those estimates.

We review our assets, including our collegiate housing communities, communities under development and goodwill for potential impairment indicators whenever events or circumstances indicate that the carrying value might not be recoverable. Impairment indicators include, but are not limited to, declines in our market capitalization, overall market factors, changes in cash flows, significant decreases in net operating income and occupancies at our operating properties, changes in projected completion dates of our development projects and sustainability of development projects. Our tests for impairment are based on the most current information available and if conditions change or if our plans regarding our assets change, it could result in additional impairment charges in the future. However, based on our plans with respect to our operating properties and those under development, we believe the carrying amounts are recoverable.

## **Recent Accounting Pronouncements**

In May 2011, the FASB issued new authoritative guidance resulting in common fair value measurement and disclosure requirements in GAAP and International Financial Reporting Standards. Consequently some of the amendments clarify the FASB's intent about the application of existing fair value measurement requirements. Other amendments change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements. The guidance is effective for financial statements issued for fiscal years and interim periods beginning after December 15, 2011 and is applied prospectively. The adoption had no material impact on the Trust's condensed consolidated financial statements.

In September 2011, the FASB issued new authoritative guidance to simplify how entities test for goodwill impairment. The new guidance allows an entity the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If after assessing the totality of events or circumstances, an entity determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step goodwill impairment test is unnecessary. However, if the entity concludes otherwise, it is required to proceed with performing step one of the goodwill impairment test and step two if necessary. Under the new guidance, an entity is no longer permitted to carry forward its detailed calculation of a reporting unit's fair value as previously permitted. The guidance is effective for financial statements issued for fiscal years and interim periods beginning after December 15, 2011, and early adoption is permitted. The adoption had no material impact on the Trust's condensed consolidated financial statements.

In December 2011, the FASB updated the guidance related to *Property, Plant and Equipment- Real Estate Sales*, to eliminate diversity in practice regarding whether in substance real estate should be derecognized when the parent ceases to have a controlling financial interest in a subsidiary that is in substance real estate because of a default of the subsidiary on its nonrecourse debt. The updated guidance clarifies the accounting for such transactions is based on their substance rather than their form, and a reporting entity generally would not satisfy the requirements to derecognize the in substance real estate before the legal transfer of the real estate to the lender and the extinguishment of the related nonrecourse debt. The guidance is effective for financial statements issued for fiscal years and interim periods beginning after June 15, 2012. The adoption is not expected to have a material impact on the Trust's consolidated financial statements.

### Results of Operations for the Six Months Ended June 30, 2012 and 2011

The following table presents the results of operations for the Trust for the six months ended June 30, 2012 and 2011:

|                                             | Six Months Ended June 30, 2012<br>(In thousands) |                                       |                        |                              |          | Six Months Ended June 30, 2011   |                                       |                        |                              |          |
|---------------------------------------------|--------------------------------------------------|---------------------------------------|------------------------|------------------------------|----------|----------------------------------|---------------------------------------|------------------------|------------------------------|----------|
|                                             | Collegiate<br>Housing<br>Leasing                 | Development<br>Consulting<br>Services | Management<br>Services | Adjustments/<br>Eliminations | Total    | Collegiate<br>Housing<br>Leasing | Development<br>Consulting<br>Services | Management<br>Services | Adjustments/<br>Eliminations | Total    |
| Segment revenues:                           |                                                  |                                       |                        |                              |          |                                  |                                       |                        |                              |          |
| Collegiate housing leasing revenue          | \$67,715                                         | \$—                                   | \$—                    | \$—                          | \$67,715 | \$52,312                         | \$—                                   | \$—                    | \$—                          | \$52,312 |
| Third-party development consulting services | —                                                | 503                                   | —                      | (158 )                       | 345      | —                                | 3,273                                 | —                      | (924 )                       | 2,349    |
| Third-party management services             | —                                                | —                                     | 1,572                  | —                            | 1,572    | —                                | —                                     | 1,579                  | —                            | 1,579    |
| Operating expense reimbursements            | —                                                | —                                     | —                      | 4,399                        | 4,399    | —                                | —                                     | —                      | 3,873                        | 3,873    |
| Total segment revenues                      | 67,715                                           | 503                                   | 1,572                  | 4,241                        | 74,031   | 52,312                           | 3,273                                 | 1,579                  | 2,949                        | 60,113   |
| Segment operating expenses:                 |                                                  |                                       |                        |                              |          |                                  |                                       |                        |                              |          |
| Collegiate housing leasing                  | 30,677                                           | —                                     | —                      | —                            | 30,677   | 24,580                           | —                                     | —                      | —                            | 24,580   |

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|                                                    |          |            |       |          |          |          |         |       |          |          |
|----------------------------------------------------|----------|------------|-------|----------|----------|----------|---------|-------|----------|----------|
| operations                                         |          |            |       |          |          |          |         |       |          |          |
| General and administrative                         | —        | 1,820      | 1,416 | (38 )    | 3,198    | —        | 1,540   | 1,298 | (182 )   | 2,656    |
| Reimbursable operating expenses                    | —        | —          | —     | 4,399    | 4,399    | —        | —       | —     | 3,873    | 3,873    |
| Total segment operating expenses                   | 30,677   | 1,820      | 1,416 | 4,361    | 38,274   | 24,580   | 1,540   | 1,298 | 3,691    | 31,109   |
| Segment net operating income (loss) <sup>(1)</sup> | \$37,038 | \$(1,317 ) | \$156 | \$(120 ) | \$35,757 | \$27,732 | \$1,733 | \$281 | \$(742 ) | \$29,004 |

(1) The following is a reconciliation of the reportable segments' net operating income to the Trust's consolidated income before income taxes and discontinued operations for the six months ended June 30:

|                                                               | 2012     | 2011     |
|---------------------------------------------------------------|----------|----------|
| Net operating income for reportable segments                  | \$35,757 | \$29,004 |
| Other unallocated general and administrative expenses         | (4,115 ) | (2,969 ) |
| Depreciation and amortization                                 | (17,518) | (13,845) |
| Ground leases                                                 | (3,020 ) | (2,732 ) |
| Nonoperating expenses                                         | (8,166 ) | (10,211) |
| Equity in earnings (losses) of unconsolidated entities        | (301 )   | (18 )    |
| Income (loss) before income taxes and discontinued operations | \$2,637  | \$(771 ) |

## Collegiate housing leasing

Collegiate housing operating statistics for wholly-owned communities and same communities for the six months ended June 30, 2012 and 2011 were as follows:

|                                            | Six months<br>ended<br>June 30,<br>2012 <sup>(9)</sup> |   | Six months<br>ended<br>June 30,<br>2011 <sup>(9)</sup> |   | Favorable<br>(Unfavorable) |     |
|--------------------------------------------|--------------------------------------------------------|---|--------------------------------------------------------|---|----------------------------|-----|
| <b>Wholly-owned communities:</b>           |                                                        |   |                                                        |   |                            |     |
| Occupancy                                  |                                                        |   |                                                        |   |                            |     |
| Physical <sup>(1)</sup>                    | 91.1                                                   | % | 90.3                                                   | % | 80                         | bps |
| Economic <sup>(2)</sup>                    | 90.6                                                   | % | 88.6                                                   | % | 200                        | bps |
| NarPAB <sup>(3)</sup>                      | \$ 455                                                 |   | \$ 399                                                 |   | \$ 56                      |     |
| Other income per avail. bed <sup>(4)</sup> | \$ 28                                                  |   | \$ 22                                                  |   | \$ 6                       |     |
| RevPAB <sup>(5)</sup>                      | \$ 483                                                 |   | \$ 421                                                 |   | \$ 62                      |     |
| Operating expense per bed <sup>(6)</sup>   | \$ 218                                                 |   | \$ 198                                                 |   | \$ (20                     | )   |
| Operating margin <sup>(7)</sup>            | 54.7                                                   | % | 53.0                                                   | % | 168                        | bps |
| Design Beds <sup>(8)</sup>                 | 140,406                                                |   | 124,434                                                |   | 15,972                     |     |
| <b>Same communities <sup>(10)</sup>:</b>   |                                                        |   |                                                        |   |                            |     |
| Occupancy                                  |                                                        |   |                                                        |   |                            |     |
| Physical <sup>(1)</sup>                    | 91.7                                                   | % | 90.5                                                   | % | 120                        | bps |
| Economic <sup>(2)</sup>                    | 91.1                                                   | % | 88.8                                                   | % | 230                        | bps |
| NarPAB <sup>(3)</sup>                      | \$ 428                                                 |   | \$ 398                                                 |   | \$ 30                      |     |
| Other income per avail. bed <sup>(4)</sup> | \$ 23                                                  |   | \$ 21                                                  |   | \$ 2                       |     |
| RevPAB <sup>(5)</sup>                      | \$ 451                                                 |   | \$ 419                                                 |   | \$ 32                      |     |
| Operating expense per bed <sup>(6)</sup>   | \$ 204                                                 |   | \$ 197                                                 |   | \$ (7                      | )   |
| Operating margin <sup>(7)</sup>            | 54.7                                                   | % | 53.0                                                   | % | 170                        | bps |
| Design Beds <sup>(8)</sup>                 | 123,162                                                |   | 123,164                                                |   | (2                         | )   |

(1) Physical occupancy represents a weighted average of the month-end occupancies for the respective period.

(2) Economic occupancy represents the effective occupancy calculated by taking net apartment rent accounted for on a GAAP basis for the respective period divided by market rent for the respective period.

(3) NarPAB represents GAAP net apartment rent for the respective period divided by the sum of the design beds in the portfolio for each of the included months.

(4)

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Represents other GAAP-based income for the respective period divided by the sum of the design beds in the portfolio for each of the included months. Other income includes service/application fees, late fees, termination fees, parking fees, transfer fees, damage recovery, utility recovery and other miscellaneous fees.

(5) Represents total revenue (net apartment rent plus other income) for the respective period divided by the sum of the design beds in the portfolio for each of the included months.

(6) Represents property-level operating expense excluding management fees, depreciation and amortization and ground/facility lease fees divided by the sum of the design beds for each of the included months.

(7) Represents operating income divided by revenue.

(8) Represents the sum of the monthly design beds in the portfolio during the period. Design beds are total beds (including staff and model beds) in the portfolio.

(9) This information excludes property information related to discontinued operations.

(10) Represents operating statistics for communities that were operating for the full six months ended June 30, 2012 and 2011.

Total revenue in the collegiate housing leasing segment was \$67.7 million for the six months ended June 30, 2012. This represents an increase of \$15.4 million, or 29.4%, from the same period in 2011. This increase included \$11.6 million related to new communities, which added almost 16,000 beds to the portfolio and \$3.8 million from a 7.4% increase in same-community revenue. The same-community revenue growth was driven by a 1.0% improvement in occupancies, a 6.0% improvement in net rental rates and a 0.4% increase in other rental revenue.



As discussed above, beginning with the three months ended March 31, 2012, we are reporting in all periods presented regional and corporate costs to support our owned portfolio as part of our collegiate housing operating costs and not as part of G&A costs. Operating expenses in the collegiate housing leasing segment increased \$6.1 million, or 24.8%, to \$30.7 million for the six months ended June 30, 2012 as compared to the same period in 2011. The nine new communities added \$5.2 million of operating expenses over the same period in the prior year. In addition, same-community operating expenses increased \$0.9 million, or 3.5%, over the same period in the prior year primarily due to increases in internet services at certain communities as well as normal inflationary increases.

### Development consulting services

The following table represents the development consulting projects that were active during the six months ended June 30, 2012 and 2011:

| Project                                                            | Beds | Fee Type                     | Earnings<br>(In thousands) |         | Difference  |
|--------------------------------------------------------------------|------|------------------------------|----------------------------|---------|-------------|
|                                                                    |      |                              | 2012                       | 2011    |             |
| Centennial Hall                                                    | 454  | Cost Savings/Development fee | 182                        | 266     | (84 )       |
| Indiana University of Pennsylvania — Phase IV                      | 596  | Cost Savings                 | —                          | 456     | (456 )      |
| Colorado State University – Pueblo II                              | 500  | Development fee              | —                          | 1       | (1 )        |
| East Stroudsburg University                                        | 969  | Development fee              | 128                        | 1,006   | (878 )      |
| Mansfield University of Pennsylvania                               | 634  | Development fee              | 35                         | 495     | (460 )      |
| Miscellaneous development fees                                     |      |                              | —                          | 125     | (125 )      |
| Third-party development consulting services                        |      |                              | 345                        | 2,349   | (2,004 )    |
| Participating project - Science + Technology Park at Johns Hopkins | 572  | Development fee              | 158                        | 924     | (766 )      |
| Development consulting services                                    |      |                              | \$503                      | \$3,273 | \$ (2,770 ) |

Development consulting services revenue decreased \$2.8 million, or 84.6%, to \$0.5 million for the six months ended June 30, 2012 as compared to the same period in 2011. Third-party development consulting revenue decreased \$2.0 million from the prior year due to less development activity on two active third-party development consulting projects offset by cost savings revenue recognized for the Centennial Hall project during the first quarter of 2012. The Science + Technology Park at Johns Hopkins (see Note 2 to the accompanying condensed consolidated financial statements) contributed \$0.8 million to the decline in revenue as we reach the completion of the project. Due to the fact that the

Trust is guaranteeing the construction loan and extending a second mortgage to the development, all revenue on the project is being deferred in the accompanying condensed consolidated financial statements until the second mortgage is repaid and the Trust no longer guarantees the debt. Since management considers these fees when assessing the performance of the segment, they are included in the segment financial statements above and deferred in the adjustments/eliminations column. If the construction loan and second mortgage had been repaid prior to June 30, 2012, the Trust would have recognized development services revenue net of costs of \$1.8 million, guarantee fee revenue of \$3.0 million and interest income of \$2.8 million since the commencement of the project.

G&A costs for our development consulting services segment increased \$0.3 million, or 18.2%, for the six months ended June 30, 2012 compared to the same period in the prior year. This increase is primarily due to additional payroll costs related to the increased development activity discussed in the Trends and Outlook section above. Internal development project costs related to the Science + Technology Park at Johns Hopkins discussed above are deferred in the accompanying condensed consolidated financial statements until revenue associated with this project is recognized. As such, these expenses are eliminated in the adjustments/eliminations column of the segment financial statements.

### **Management services**

Total management services revenue remained relatively flat at \$1.6 million for the six months ended June 30, 2012 and 2011. Existing contracts produced a net increase in fee revenue and three additional contracts, one community that came out of development in the fourth quarter of 2011 and two new management contracts added in 2012, added to the increase, which was offset by the loss of three management contracts associated with the sales of the communities. Beginning with the three months ended March 31, 2012, we are no longer including intersegment revenues related to the management of our owned portfolio in the management services segment for all periods presented due to the fact the costs to manage our owned portfolio have been reclassified to collegiate housing operating costs as discussed above.

G&A costs for our management services segment increased \$0.1 million, or 9.1%, for the six months ended June 30, 2012 compared to the same period in the prior year primarily due to the growth of the company.

### **Other unallocated general and administrative expenses**

Other unallocated G&A costs increased \$1.1 million, or 38.6%, during the six months ended June 30, 2012 over the same period in the prior year primarily due to costs associated with the growth of our owned portfolio.

### **Depreciation and amortization**

Depreciation and amortization increased \$3.7 million, or 26.5%, during the six months ended June 30, 2012 over the same period in the prior year. This increase relates mainly to the purchase of nine new properties as discussed above.

## **Ground leases**

For the six months ended June 30, 2012, the cost of ground leases increased \$0.3 million or 10.5% compared to the same period in the prior year due to the addition of GrandMarc at Westberry Place at Texas Christian University in the fourth quarter of 2011. This community is subject to a 53-year ground lease with a fixed-floor annual rent increase. The Trust recognizes ground lease expense on a straight-line basis over the life of the lease.

## **Nonoperating expenses**

For the six months ended June 30, 2012, nonoperating expenses decreased \$2.0 million or 20.0% compared to the same period in the prior year. Interest expense decreased \$1.8 million primarily related to the capitalization of interest on our eight owned development projects and a \$19.5 million reduction in mortgage and construction debt since June 30, 2011 (see Note 4 to the condensed consolidated financial statements). Also contributing to the decrease was a loss on extinguishment of debt of \$0.4 million taken in the first quarter of 2011 related to the repayment of \$35.5 million of variable rate debt. These decreases were offset by an increase in the amortization of deferred financing costs and less interest income.

## **Equity in earnings (losses) of unconsolidated entities**

For the six months ended June 30, 2012, equity in losses of unconsolidated entities increased \$0.3 million compared to the same period in the prior year. This change is primarily related to our share of the loss related to the first quarter 2012 asset sale in our The Reserve on Stinson joint venture. In January 2012, the Trust purchased the majority of the assets from the joint venture for \$22.9 million (see Note 3 to the condensed consolidated financial statements).

# Results of Operations for the Three Months Ended June 30, 2012 and 2011

The following table presents the results of operations for the Trust for the three months ended June 30, 2012 and 2011:

|                                                          | Three Months Ended June 30, 2012<br>(In thousands) |                                       |                        |                              |          | Three Months Ended June 30, 2011 |                                       |                        |                              |          |
|----------------------------------------------------------|----------------------------------------------------|---------------------------------------|------------------------|------------------------------|----------|----------------------------------|---------------------------------------|------------------------|------------------------------|----------|
|                                                          | Collegiate<br>Housing<br>Leasing                   | Development<br>Consulting<br>Services | Management<br>Services | Adjustments/<br>Eliminations | Total    | Collegiate<br>Housing<br>Leasing | Development<br>Consulting<br>Services | Management<br>Services | Adjustments/<br>Eliminations | Total    |
| Segment revenues:                                        |                                                    |                                       |                        |                              |          |                                  |                                       |                        |                              |          |
| Collegiate housing<br>leasing revenue                    | \$33,109                                           | \$ —                                  | \$ —                   | \$ —                         | \$33,109 | \$25,613                         | \$ —                                  | \$ —                   | \$ —                         | \$25,613 |
| Third-party<br>development<br>consulting<br>services     | —                                                  | 53                                    | —                      | (36 )                        | 17       | —                                | 1,631                                 | —                      | (558 )                       | 1,073    |
| Third-party<br>management<br>services                    | —                                                  | —                                     | 719                    | —                            | 719      | —                                | —                                     | 745                    | —                            | 745      |
| Operating expense<br>reimbursements                      | —                                                  | —                                     | —                      | 2,281                        | 2,281    | —                                | —                                     | —                      | 2,018                        | 2,018    |
| Total segment<br>revenues                                | 33,109                                             | 53                                    | 719                    | 2,245                        | 36,126   | 25,613                           | 1,631                                 | 745                    | 1,460                        | 29,449   |
| Segment operating<br>expenses:                           |                                                    |                                       |                        |                              |          |                                  |                                       |                        |                              |          |
| Collegiate housing<br>leasing operations                 | 15,523                                             | —                                     | —                      | —                            | 15,523   | 12,266                           | —                                     | —                      | —                            | 12,266   |
| General and<br>administrative                            | —                                                  | 944                                   | 719                    | (21 )                        | 1,642    | —                                | 783                                   | 631                    | (94 )                        | 1,320    |
| Reimbursable<br>operating<br>expenses                    | —                                                  | —                                     | —                      | 2,281                        | 2,281    | —                                | —                                     | —                      | 2,018                        | 2,018    |
| Total segment<br>operating<br>expenses                   | 15,523                                             | 944                                   | 719                    | 2,260                        | 19,446   | 12,266                           | 783                                   | 631                    | 1,924                        | 15,604   |
| Segment net<br>operating income<br>(loss) <sup>(1)</sup> | \$17,586                                           | \$(891 )                              | \$ —                   | \$(15 )                      | \$16,680 | \$13,347                         | \$ 848                                | \$ 114                 | \$(464 )                     | \$13,845 |

(1) The following is a reconciliation of the reportable segments' net operating income to the Trust's consolidated income (loss) before income taxes and discontinued operations for the three months ended June 30:

|                                                               | 2012      | 2011        |
|---------------------------------------------------------------|-----------|-------------|
| Net operating income for reportable segments                  | \$ 16,680 | \$ 13,845   |
| Other unallocated general and administrative expenses         | (1,938 )  | (1,601 )    |
| Depreciation and amortization                                 | (8,859 )  | (7,106 )    |
| Ground leases                                                 | (1,509 )  | (1,366 )    |
| Nonoperating expenses                                         | (3,729 )  | (4,879 )    |
| Equity in earnings (losses) of unconsolidated entities        | (38 )     | (23 )       |
| Income (loss) before income taxes and discontinued operations | \$ 607    | \$ (1,130 ) |

## Collegiate housing leasing

Collegiate housing operating statistics for wholly-owned communities and same-communities for the three months ended June 30, 2012 and 2011 were as follows:

|                                            | Three months<br>ended<br>June 30,<br>2012 <sup>(9)</sup> |   | Three months<br>ended<br>June 30,<br>2011 <sup>(9)</sup> |   | Favorable<br>(Unfavorable) |     |
|--------------------------------------------|----------------------------------------------------------|---|----------------------------------------------------------|---|----------------------------|-----|
| <b>Wholly-owned communities:</b>           |                                                          |   |                                                          |   |                            |     |
| Occupancy                                  |                                                          |   |                                                          |   |                            |     |
| Physical <sup>(1)</sup>                    | 88.5                                                     | % | 88.0                                                     | % | 49                         | bps |
| Economic <sup>(2)</sup>                    | 87.8                                                     | % | 85.4                                                     | % | 240                        | bps |
| NarPAB <sup>(3)</sup>                      | \$ 439                                                   |   | \$ 386                                                   |   | \$ 53                      |     |
| Other income per avail. bed <sup>(4)</sup> | \$ 30                                                    |   | \$ 23                                                    |   | \$ 7                       |     |
| RevPAB <sup>(5)</sup>                      | \$ 469                                                   |   | \$ 409                                                   |   | \$ 60                      |     |
| Operating expense per bed <sup>(6)</sup>   | \$ 220                                                   |   | \$ 196                                                   |   | \$ (24                     | )   |
| Operating margin <sup>(7)</sup>            | 53.1                                                     | % | 52.1                                                     | % | 101                        | bps |
| Design Beds <sup>(8)</sup>                 | 70,590                                                   |   | 62,620                                                   |   | 7,970                      |     |
| <b>Same communities <sup>(10)</sup>:</b>   |                                                          |   |                                                          |   |                            |     |
| Occupancy                                  |                                                          |   |                                                          |   |                            |     |
| Physical <sup>(1)</sup>                    | 89.4                                                     | % | 88.3                                                     | % | 110                        | bps |
| Economic <sup>(2)</sup>                    | 88.0                                                     | % | 85.8                                                     | % | 220                        | bps |
| NarPAB <sup>(3)</sup>                      | \$ 413                                                   |   | \$ 385                                                   |   | \$ 28                      |     |
| Other income per avail. bed <sup>(4)</sup> | \$ 25                                                    |   | \$ 23                                                    |   | \$ 2                       |     |
| RevPAB <sup>(5)</sup>                      | \$ 438                                                   |   | \$ 408                                                   |   | \$ 30                      |     |
| Operating expense per bed <sup>(6)</sup>   | \$ 203                                                   |   | \$ 195                                                   |   | \$ (8                      | )   |
| Operating margin <sup>(7)</sup>            | 53.7                                                     | % | 52.1                                                     | % | 160                        | bps |
| Design Beds <sup>(8)</sup>                 | 61,581                                                   |   | 61,584                                                   |   | (3                         | )   |

(1) Physical occupancy represents a weighted average of the month-end occupancies for the respective period.

(2) Economic occupancy represents the effective occupancy calculated by taking net apartment rent accounted for on a GAAP basis for the respective period divided by market rent for the respective period.

(3) NarPAB represents GAAP net apartment rent for the respective period divided by the sum of the design beds in the portfolio for each of the included months.

(4)

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Represents other GAAP-based income for the respective period divided by the sum of the design beds in the portfolio for each of the included months. Other income includes service/application fees, late fees, termination fees, parking fees, transfer fees, damage recovery, utility recovery and other miscellaneous fees.

(5) Represents total revenue (net apartment rent plus other income) for the respective period divided by the sum of the design beds in the portfolio for each of the included months.

(6) Represents property-level operating expense excluding management fees, depreciation and amortization and ground/facility lease fees divided by the sum of the design beds for each of the included months.

(7) Represents operating income divided by revenue.

(8) Represents the sum of the monthly design beds in the portfolio during the period. Design beds are total beds (including staff and model beds) in the portfolio.

(9) This information excludes property information related to discontinued operations.

(10) Represents operating statistics for communities that were operating for the full six months ended June 30, 2012 and 2011.

Total revenue in the collegiate housing leasing segment was \$33.1 million for the three months ended June 30, 2012. This represents an increase of \$7.5 million, or 29.3%, from the same period in 2011. This increase included \$5.6 million related to the new communities discussed above and \$1.9 million from a 7.5% increase in same-community revenue. The same-community revenue growth was driven by a 1.0% improvement in occupancies, a 5.9% improvement in net rental rates and a 0.6% increase in other rental revenue.



As discussed above, beginning with the three months ended March 31, 2012, we are reporting in all periods presented regional and corporate costs to support our owned portfolio as part of our collegiate housing operating costs and not as part of G&A costs. Operating expenses in the collegiate housing leasing segment increased \$3.3 million, or 26.5%, to \$15.5 million for the three months ended June 30, 2012 as compared to the same period in 2011. The nine new communities discussed above added \$2.8 million of operating expenses over the same period in the prior year. In addition, same-community operating expenses increased \$0.5 million, or 3.8%, over the same period in the prior year primarily due to increases in internet services at certain communities as well as normal inflationary increases.

### Development consulting services

The following table represents the development consulting projects that were active during the three months ended June 30, 2012 and 2011:

| Project                                                            | Beds | Fee Type                     | Earnings<br>(In thousands) |         |             |
|--------------------------------------------------------------------|------|------------------------------|----------------------------|---------|-------------|
|                                                                    |      |                              | 2012                       | 2011    | Difference  |
| Centennial Hall                                                    | 454  | Cost Savings/Development fee | —                          | 114     | (114 )      |
| Colorado State University – Pueblo II                              | 500  | Development fee              | —                          | 1       | 1           |
| East Stroudsburg University                                        | 969  | Development fee              | 16                         | 606     | (590 )      |
| Mansfield University of Pennsylvania                               | 634  | Development fee              | 1                          | 352     | (351 )      |
| Third-party development consulting services                        |      |                              | 17                         | 1,073   | (1,056 )    |
| Participating project - Science + Technology Park at Johns Hopkins | 572  | Development fee              | 36                         | 558     | (522 )      |
| Development consulting services                                    |      |                              | \$53                       | \$1,631 | \$ (1,578 ) |

Development consulting services revenue decreased \$1.6 million, or 96.8%, to \$0.1 million for the three months ended June 30, 2012 as compared to the same period in 2011. Third-party development consulting revenue decreased \$1.1 million from the prior year due to less development activity on two active third-party development consulting projects that were completed in the first quarter of 2012. The Science + Technology Park at Johns Hopkins (see Note 2 to the accompanying condensed consolidated financial statements) contributed \$0.5 million to the decline in revenue as we reach the completion of the project. Due to the fact that the Trust is guaranteeing the construction loan and extending a second mortgage to the development, all revenue on the project is being deferred in the accompanying condensed consolidated financial statements until the second mortgage is repaid and the Trust no longer guarantees the debt. Since management considers these fees when assessing the performance of the segment, they are included in the segment financial statements above and deferred in the adjustments/eliminations column.

G&A costs for our development consulting services segment increased \$0.2 million, or 20.6%, for the three months ended June 30, 2012 compared to the same period in the prior year. This increase is primarily due to additional payroll costs related to the increased development activity discussed in the Trends and Outlook section above. Internal development project costs related to the Science + Technology Park at Johns Hopkins discussed above are deferred in the accompanying condensed consolidated financial statements until revenue associated with this project is recognized. As such, these expenses are eliminated in the adjustments/eliminations column of the segment financial statements.

### **Management services**

Total management services revenue remained relatively flat at \$0.7 million for the three months ended June 30, 2012 and 2011. Existing contracts produced a net increase in fee revenue and three additional contracts, one community that came out of development in the fourth quarter of 2011 and two new management contracts added in 2012, added to the increase, which was offset by the loss of three management contracts associated with the sales of the communities. Beginning with the three months ended March 31, 2012, we are no longer including intersegment revenues related to the management of our owned portfolio in the management services segment for all periods presented due to the fact the costs to manage our owned portfolio have been reclassified to collegiate housing operating costs as discussed above.

G&A costs for our management services segment increased \$0.1 million, or 13.9%, for the three months ended June 30, 2012 compared to the same period in the prior year primarily due to the growth of the company.

### **Other unallocated general and administrative expenses**

Other unallocated G&A costs increased \$0.3 million, or 21.0%, during the three months ended June 30, 2012 over the same period in the prior year primarily due to costs associated with the growth of our owned portfolio.

### **Depreciation and amortization**

Depreciation and amortization increased \$1.8 million, or 24.7%, during the three months ended June 30, 2012 over the same period in the prior year. This increase relates mainly to the purchase of nine new properties as discussed above.

### **Ground leases**

For the three months ended June 30, 2012, the cost of ground leases increased \$0.1 million or 10.5% compared to the same period in the prior year, due to the addition of GrandMarc at Westberry Place at Texas Christian University in the fourth quarter of 2011. This community is subject to a 53-year ground lease with a fixed-floor annual rent increase. The Trust recognizes ground lease expense on a straight-line basis over the life of the lease.

## **Nonoperating expenses**

For the three months ended June 30, 2012, nonoperating expenses decreased \$1.2 million or 23.6% compared to the same period in the prior year. This decrease is primarily attributable to a decline in interest expense related to the capitalization of interest on our eight owned development projects and a \$19.5 million reduction in mortgage and construction debt since June 30, 2011 (see Note 4 to the condensed consolidated financial statements).

## **Non-GAAP Measures**

### **Funds from Operations (FFO)**

As defined by the National Association of Real Estate Investment Trusts ("NAREIT"), Funds from Operations, or FFO, represents net income (loss) (computed in accordance with GAAP), excluding gains (or losses) from sales of property, plus real estate related depreciation and amortization and after adjustments for unconsolidated partnerships and joint ventures. Adjustments for unconsolidated partnerships and joint ventures will be calculated to reflect funds from operations on the same basis. In October 2011, NAREIT communicated to its members that the exclusion of impairment write-downs of depreciable real estate is consistent with the definition of FFO, and prior periods should be restated to be consistent with this guidance. Accordingly, we have restated all periods presented to reflect the current guidance. We present FFO available to all stockholders and unitholders because we consider it to be an important supplemental measure of our operating performance and believe it is frequently used by securities analysts, investors and other interested parties in the evaluation of REITs, many of which present FFO when reporting their results. As such, we also exclude the impact of noncontrolling interests in our calculation. FFO is intended to exclude GAAP historical cost depreciation and amortization of real estate and related assets, which assumes that the value of real estate diminishes ratably over time. Historically, real estate values have risen or fallen with market conditions. Because FFO excludes depreciation and amortization unique to real estate, gains and losses from property dispositions and extraordinary items, it provides a performance measure that, when compared year over year, reflects the impact to operations from trends in occupancy rates, rental rates, operating costs, development activities and interest costs, providing perspective not immediately apparent from net income.

We compute FFO in accordance with standards established by the Board of Governors of NAREIT in its March 1995 White Paper (as amended in November 1999, April 2002 and by the October 2011 guidance described above), which may differ from the methodology for calculating FFO utilized by other equity REITs and, accordingly, may not be comparable to such other REITs. Further, FFO does not represent amounts available for management's discretionary use because of needed capital replacement or expansion, debt service obligations or other commitments and uncertainties. We believe that net income is the most directly comparable GAAP measure to FFO available to stockholders and unitholders. FFO should not be considered as an alternative to net income (loss) (computed in accordance with GAAP) as an indicator of our financial performance or to cash flow from operating activities (computed in accordance with GAAP) as an indicator of our liquidity, nor is it indicative of funds available to fund our cash needs, including our ability to make distributions.

The Trust also uses core funds from operations, or Core FFO, as an operating performance measure. Core FFO is defined as FFO adjusted to include the economic impact of revenue on participating projects for which recognition is deferred for GAAP purposes. The adjustment for this revenue is calculated on the same percentage of completion method used to recognize revenue on third-party development projects. Core FFO also includes adjustments to exclude the impact of straight-line adjustments for ground leases, gains/losses on extinguishment of debt, transaction costs related to acquisitions and reorganization or severance costs. We believe that these adjustments are appropriate in determining Core FFO as they are not indicative of the operating performance of the Trust's assets. In addition, management uses Core FFO in the assessment of the Trust's operating performance and comparison to its industry peers and believes that Core FFO is a useful supplemental measure for the investing community to use in comparing the Trust to other REITs as many REITs provide some form of adjusted or modified FFO.

The following table presents a reconciliation of FFO and Core FFO available to our stockholders and unitholders to net income for the three and six months ended June 30, 2012 and 2011 (in thousands):

|                                                                                       | Three Months Ended June 30, |          | Six Months Ended June 30, |          |
|---------------------------------------------------------------------------------------|-----------------------------|----------|---------------------------|----------|
|                                                                                       | 2012                        | 2011     | 2012                      | 2011     |
| Net income attributable to Education Realty Trust, Inc.                               | \$ 1,256                    | \$ 576   | \$ 3,144                  | \$ 1,231 |
| Gain on sale of collegiate housing assets                                             | (172 )                      | (1,445 ) | (172 )                    | (2,388 ) |
| Real estate related depreciation and amortization                                     | 8,716                       | 7,218    | 17,279                    | 14,104   |
| Real estate depreciation and amortization included in equity in earnings of investees | 59                          | 111      | 125                       | 221      |
| Equity portion of loss on sale of collegiate housing property on equity investee      | —                           | —        | 88                        | —        |
| Noncontrolling interests                                                              | (56 )                       | (60 )    | 185                       | 151      |
| FFO                                                                                   | 9,803                       | 6,400    | 20,649                    | 13,319   |
| FFO adjustments:                                                                      |                             |          |                           |          |
| Loss on extinguishment of debt                                                        | —                           | —        | —                         | 757      |
| Acquisition costs                                                                     | 287                         | 202      | 454                       | 373      |
| Straight-line adjustment for ground leases                                            | 1,085                       | 1,053    | 2,146                     | 2,106    |

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|                                                                       |           |          |           |           |
|-----------------------------------------------------------------------|-----------|----------|-----------|-----------|
| FFO adjustments:                                                      | 1,372     | 1,255    | 2,600     | 3,236     |
| FFO on Participating Developments:                                    |           |          |           |           |
| Interest on loan to Participating Development                         | 455       | 393      | 910       | 678       |
| Development fees on Participating Development, net of costs and taxes | 9         | 317      | 71        | 519       |
| FFO on Participating Developments:                                    | 464       | 710      | 981       | 1,197     |
| Core FFO                                                              | \$ 11,639 | \$ 8,365 | \$ 24,230 | \$ 17,752 |

**Net Operating Income (NOI)**

We believe NOI is a useful measure of our collegiate housing operating performance. We define NOI as rental and other community-level revenues earned from our collegiate housing communities less community-level operating expenses, excluding management fees, depreciation, amortization, ground lease expense and impairment charges and including regional and other corporate costs of supporting the communities. Other REITs may use different methodologies for calculating NOI, and accordingly, the Trust's NOI may not be comparable to other REITs. We believe that this measure provides an operating perspective not immediately apparent from GAAP operating income or net income. The Trust uses NOI to evaluate performance on a community-by-community basis because it allows management to evaluate the impact that factors such as lease structure, lease rates and tenant base, which vary by property, have on the Trust's operating results. However, NOI should only be used as an alternative measure of the Trust's financial performance.

For the six months ended June 30, 2012, wholly-owned community NOI was \$37.0 million, an increase of \$9.3 million or 33.6% over the same period in the prior year. The increase was based on a \$15.4 million or 29.4% increase in revenues and a \$6.1 million or 24.8% increase in operating expenses. Same-community NOI for the six months ended June 30, 2012 was \$30.4 million, an increase of \$3.0 million or 10.8% over the prior period. The increase was based on a \$3.8 million or 7.4% increase in revenues and a \$0.8 million or 3.5% increase in operating expenses.

For the three months ended June 30, 2012, wholly-owned community NOI was \$17.6 million, an increase of \$4.2 million or 31.8% over the same period in the prior year. The increase was based on a \$7.5 million or 29.3% increase in revenues and a \$3.3 million or 26.5% increase in operating expenses. Same-community NOI for the three months ended June 30, 2012 was \$14.5 million, an increase of \$1.4 million or 10.9% over the prior period. The increase was based on a \$1.9 million or 7.5% increase in revenues and a \$0.5 million or 3.8% increase in operating expenses.

The following is a reconciliation of our GAAP operating income (loss) to NOI for three and six months ended June 30, 2012 and 2011 (in thousands):

|                                                | For the three months ended June 30, |           | For the six months ended June 30, |           |
|------------------------------------------------|-------------------------------------|-----------|-----------------------------------|-----------|
|                                                | 2012                                | 2011      | 2012                              | 2011      |
| Operating income                               | \$ 4,374                            | \$ 3,772  | \$ 11,104                         | \$ 9,458  |
| Less: Third-party development services revenue | 17                                  | 1,073     | 345                               | 2,349     |
| Less: Third-party management services revenue  | 719                                 | 745       | 1,572                             | 1,579     |
| Plus: General and administrative expenses      | 3,580                               | 2,921     | 7,313                             | 5,625     |
| Plus: Ground leases                            | 1,509                               | 1,366     | 3,020                             | 2,732     |
| Plus: Depreciation and amortization            | 8,859                               | 7,106     | 17,518                            | 13,845    |
| NOI                                            | \$ 17,586                           | \$ 13,347 | \$ 37,038                         | \$ 27,732 |

**Adjusted Earnings before interest, taxes, depreciation and amortization (Adjusted EBITDA)**

Adjusted EBITDA is defined as net income or loss excluding: (1) straight line adjustment for ground leases; (2) acquisition costs; (3) depreciation and amortization; (4) loss on impairment of collegiate housing assets; (5) gain on sale of collegiate housing assets; (6) interest expense; (7) other non-operating expense (income); (8) income tax expense (benefit); (9) non-controlling interest; and (10) applicable expenses related to discontinued operations. We consider Adjusted EBITDA useful to an investor in evaluating and facilitating comparisons of our operating performance between periods and between REITs by removing the impact of our capital structure (primarily interest expense) and asset base (primarily depreciation and amortization) from our operating results. As of June 30, 2012, our net debt (total debt less cash) to Adjusted EBITDA for the trailing twelve months was 6.2x and our interest coverage ratio (Adjusted EBITDA for the trailing twelve months divided by interest expense) was 3.3x.



The following is a reconciliation of our GAAP net income (loss) to Adjusted EBITDA for the trailing twelve months ended June 30, 2012 (in thousands):

|                                                                    | Plus:                                   | Plus:                                 | Less:                                   | Trailing<br>Twelve<br>Months<br>ended June<br>30,<br>2012 |
|--------------------------------------------------------------------|-----------------------------------------|---------------------------------------|-----------------------------------------|-----------------------------------------------------------|
|                                                                    | Six months<br>ended June<br>30,<br>2012 | Year ended<br>December<br>31,<br>2011 | Six months<br>ended June<br>30,<br>2011 |                                                           |
| Net income (loss) attributable to common shareholders              | \$ 3,144                                | \$ (11,014 )                          | \$ 1,231                                | \$ (9,101 )                                               |
| Straight line adjustment for ground leases                         | 2,146                                   | 4,208                                 | 2,106                                   | 4,248                                                     |
| Acquisition costs                                                  | 454                                     | 741                                   | 373                                     | 822                                                       |
| Depreciation and amortization                                      | 17,518                                  | 29,105                                | 13,845                                  | 32,778                                                    |
| Depreciation and amortization- discontinued operations             | —                                       | 450                                   | 501                                     | (51 )                                                     |
| Loss on impairment of collegiate housing assets                    | 88                                      | 7,859                                 | —                                       | 7,947                                                     |
| Gain on sale of collegiate housing assets- discontinued operations | (172 )                                  | (2,388 )                              | (2,388 )                                | (172 )                                                    |
| Interest expense, net                                              | 7,587                                   | 18,242                                | 9,384                                   | 16,445                                                    |
| Interest expense, net- discontinued operations                     | —                                       | 76                                    | 76                                      | —                                                         |
| Other nonoperating expense (income)                                | 579                                     | 1,420                                 | 826                                     | 1,173                                                     |
| Income tax expense (benefit)                                       | (479 )                                  | (95 )                                 | (218 )                                  | (356 )                                                    |
| Non-controlling interests                                          | 183                                     | 214                                   | 126                                     | 271                                                       |
| Applicable expenses (income) related to discontinued operations    | 2                                       | 450                                   | 450                                     | 2                                                         |
| Adjusted EBITDA                                                    | \$ 31,050                               | \$ 49,268                             | \$ 26,312                               | \$ 54,006                                                 |

## Liquidity and Capital Resources

### Third Amended Revolver, Master Secured Credit Facility and other indebtedness

On September 21, 2011, the Operating Partnership entered into a Third Amended and Restated Credit Agreement (the “Third Amended Revolver”). The Third Amended Revolver amended and restated the existing secured revolving credit facility dated November 20, 2009. The previous facility (the “Second Amended Revolver”) had a maximum availability of \$95 million and was scheduled to mature on November 20, 2012. The Third Amended Revolver is unsecured, has a maximum availability of \$175 million and, within the first three years of the agreement, may be expanded to \$315 million upon satisfaction of certain conditions. The Third Amended Revolver matures on September 21, 2014, provided that the Operating Partnership may extend the maturity date for one year subject to certain conditions.

Availability under the Third Amended Revolver is limited to a “borrowing base availability” equal to the lesser of (i) 60% of the property asset value (as defined in the agreement) and (ii) the loan amount, which would produce a debt service coverage ratio of no less than 1.40. As of June 30, 2012, our borrowing base was \$175.0 million, and we had \$30.0 million outstanding under the Third Amended Revolver; thus, our remaining borrowing base availability was \$145.0 million.

The Trust serves as the guarantor for any funds borrowed by the Operating Partnership under the Third Amended Revolver. The interest rate per annum applicable to the Third Amended Revolver is, at the Operating Partnership’s option, equal to a base rate or the London InterBank Offered Rate (“LIBOR”) plus an applicable margin based upon our leverage. As of June 30, 2012, the interest rate applicable to the Third Amended Revolver was 1.88%.

The Third Amended Revolver contains customary affirmative and negative covenants and contains financial covenants that, among other things, require the Trust and its subsidiaries to maintain certain minimum ratios of “EBITDA” (earnings before payment or charges of interest, taxes, depreciation, amortization or extraordinary items) as compared to interest expense and total fixed charges. The financial covenants also include consolidated net worth and leverage ratio tests. As of June 30, 2012, the Trust was in compliance with all covenants of the Third Amended Revolver.

The Trust is prohibited from making distributions in excess of 95% of funds from operations except to comply with the legal requirements to maintain its status as a REIT.

As of June 30, 2012, the Trust had outstanding mortgage and construction indebtedness of \$310.6 million (excluding unamortized debt discount of \$0.1 million). Of the total, \$50.6 million and \$36.6 million relates to construction debt and variable rate mortgage debt, respectively, that is described below, and \$34.9 million pertains to outstanding mortgage debt that is secured by the underlying collegiate housing properties or leaseholds bearing interest at fixed rates ranging from 4.92% to 5.99%. The remaining \$188.5 million of the outstanding mortgage indebtedness relates to the Fannie Mae master secured credit facility that the Trust entered into on December 31, 2008 and expanded on December 2, 2009 (the “Master Secured Credit Facility”), which bears interest at a weighted average fixed rate of 5.88%. The Trust was in compliance with all financial covenants, including consolidated net worth and liquidity tests, contained in the Master Secured Credit Facility as of June 30, 2012. During the six months ended June 30, 2011, the Trust repaid \$35.5 million of variable rate debt that was outstanding under the Master Secured Credit Facility with proceeds from the sale of five collegiate housing communities (see Note 8 to the condensed consolidated financial statements).

As of June 30, 2012, the Trust had outstanding variable rate mortgage debt of \$36.6 million that was assumed in connection with the acquisition of the GrandMarc at Westberry Place collegiate housing community located at Texas Christian University. The interest rate per year applicable to the loan is equal to a base rate plus a 4.85% margin, in total not to exceed 7.5% per year, and principal and interest are paid on a monthly basis. The loan matures on January 1, 2020. As of June 30, 2012, the interest rate applicable to the loan was 4.89%.

As of June 30, 2012, the Trust had borrowed \$10.7 million on a construction loan related to the development of a wholly-owned collegiate housing community in Storrs, Connecticut (The Oaks on the Square). The interest rate per year applicable to the loan is, at the option of the Trust, equal to a base rate plus a 1.25% margin or LIBOR plus a 2.25% margin and is interest only through October 30, 2015. As of June 30, 2012, the interest rate applicable to the loan was 2.49%. On October 30, 2015, if certain conditions for extension are met, we have the option to extend the loan until October 31, 2016. On October 30, 2016, if certain conditions are met, we have the option to extend the loan until October 31, 2017. During the extension periods, if applicable, principal and interest are to be repaid on a monthly basis.

As of June 30, 2012, the Trust had borrowed \$25.2 million on a construction loan related to the development of a jointly owned collegiate housing community in Tuscaloosa, Alabama (East Edge). The Trust is the majority owner and managing member of the joint venture and will manage the community when completed. The loan bears interest equal to LIBOR plus a 240 basis point margin and is interest only through June 30, 2014. As of June 30, 2012, the interest rate applicable to the loan was 2.64%. On June 15, 2014, if the debt service ratio is not less than 1.15 to 1 and an extension fee of 12.5 basis points of the total outstanding principal is paid to the lender, the Trust may extend the loan until June 30, 2015. On June 15, 2015, if the debt service ratio is not less than 1.25 to 1 and an extension fee of 12.5 basis points of the total outstanding principal is paid to the lender, the Trust can extend the loan until June 30, 2016. During the first and second extension periods, if applicable, principal and interest are to be repaid on a monthly basis.

As of June 30, 2012, the Trust had \$8.6 million outstanding on a construction loan related to the development of a wholly-owned collegiate housing community at Syracuse University (University Village Apartments on Colvin). The loan bears interest equal to LIBOR plus a 110 basis point margin and was interest only through September 29, 2011. On September 29, 2011, the Trust extended the maturity date until September 29, 2013. Going forward, a debt service coverage ratio, calculated annually on a rolling 12 month basis, of not less than 1.25 to 1 must be maintained with principal and interest being repaid on a monthly basis. As of June 30, 2012 the interest rate applicable to the loan was 1.34%.

As of June 30, 2012, the Trust had \$6.1 million outstanding on a construction loan related to the development of a second wholly-owned collegiate housing community at Syracuse University (Campus West). The interest rate per year applicable to the loan is, at the option of the Trust, equal to a base rate plus a 0.95% margin or LIBOR plus a 1.95% margin and is interest only through November 30, 2014. As of June 30, 2012, the interest rate applicable to the loan was 2.19%. Once the project is complete and a debt service coverage ratio of not less than 1.30 to 1 is maintained, the interest rate will be reduced to a base rate plus a 0.80% margin or LIBOR plus a 1.80% margin at the option of the Trust. If certain conditions for extension are met, the Trust has the option to extend the loan twice for an additional year. During the extension periods, if applicable, principal and interest are to be repaid on a monthly basis.

During the six months ended June 30, 2012, the Trust repaid in full \$27.0 million of mortgage debt secured by the collegiate housing community referred to as The Lofts located near the University of Central Florida in Orlando, Florida. The debt had a fixed interest rate of 5.59% and was due to mature in May 2014. The Trust also repaid \$10.2 million and \$4.1 million on construction loans related to the development of a wholly-owned collegiate housing community near Southern Illinois University (The Reserve at Saluki Pointe-Carbondale). The loans bore interest equal to LIBOR plus 110 and 200 basis point margins, respectively, and were due to mature on June 28, 2012. The mortgage debt and construction loans were repaid with proceeds from the Third Amended Revolver and cash on hand.

During the six months ended June 30, 2012, the Trust repaid in full \$34.0 million of mortgage debt secured by the collegiate housing community referred to as Campus Lodge located near the University of Florida in Gainesville, Florida. The debt had a fixed interest rate of 6.97%, an effective interest rate of 5.48% and was due to mature in May 2012. The mortgage debt was repaid with cash on hand.

During the year ended December 31, 2011, the Trust repaid \$18.8 million of mortgage debt bearing a fixed interest rate of 5.55% that was due to mature in March 2012 and was secured by the collegiate housing community referred to as NorthPointe in Tucson, Arizona. The mortgage debt was repaid with proceeds received in connection with the stock offering that was conducted in November 2011 (see Note 2 to the condensed consolidated financial statements).

### **Liquidity outlook and capital requirements**

During the six months ended June 30, 2012, we generated \$29.8 million of cash from operations, collected \$1.8 million on a note receivable, received proceeds of \$35.8 million from equity offerings through our at-the-market program, borrowed \$30.0 million on the Third Amended Revolver and borrowed \$29.4 million on construction loans. When combined with \$75.8 million of existing cash, we were able to invest \$7.5 million of capital into existing communities, acquire The Reserve on Stinson for \$22.9 million, repay \$77.3 million of mortgage and construction debt, invest \$70.7 million in assets under development and distribute \$13.4 million to our stockholders and unitholders in order to end the quarter with approximately \$8.4 million of cash.

Our current liquidity needs include funds for distributions to our stockholders and unitholders, including those required to maintain our REIT status and satisfy our current annual distribution target of \$0.40 per share/unit, funds for capital expenditures, funds for debt repayment and, potentially, funds for new property acquisition and development. We generally expect to meet our short-term liquidity requirements through cash provided by operations, debt refinancing, existing cash, recycling capital by way of potential asset sales and raising additional equity capital. We believe that these sources of capital will be sufficient to provide for our short-term capital needs.

Distributions for the six months ended June 30, 2012 totaled \$13.4 million, or \$0.14 per weighted average share/unit, compared to cash provided by operations of \$29.8 million, or \$0.31 per weighted average share/unit.

Based on our closing share price of \$11.08 on June 29, 2012, our total enterprise value was \$1.4 billion. With net debt (total debt less cash) of \$332.2 million as of June 30, 2012, our debt-to-enterprise value was 23.7% compared to 22.9% as of December 31, 2011. With gross assets of \$1.2 billion, which excludes accumulated depreciation of \$182.5 million, our debt-to-gross assets ratio was 28.8% as of June 30, 2012 as compared to 31.3% as of December 31, 2011.

Management believes that it has strengthened the Trust's balance sheet through the follow-on equity offerings in January and November of 2011, selling 13.2 million shares, including the underwriters' overallotment option, for net proceeds of \$91.7 million and 14.4 million shares, including the underwriters' overallotment option, for net proceeds of \$124.4 million, respectively. A portion of the net proceeds was used to repay approximately \$72.1 million of debt with the remaining proceeds used to fund the Trust's current developments and acquisitions, fund future acquisitions and developments and for general corporate purposes.

As discussed in Note 2 to the accompanying condensed consolidated financial statements, we implemented an at-the-market equity distribution program during the second quarter of 2010. As of December 31, 2011, the Trust had sold 5.9 million shares of common stock under the agreements for net proceeds of \$49.3 million and reached the aggregate offering amount of \$50 million. On September 20, 2011, the Trust entered into the 2011 equity distribution agreement. Similar to the 2010 equity distribution agreements, the Trust may issue and sell shares of its common stock having an aggregate offering amount of up to \$50 million. As of June 30, 2012, the Trust had sold 4.6 million shares of common stock under the 2011 equity distribution program for net proceeds of approximately \$47.1 million. The Trust is using the net proceeds to repay debt, fund its development pipeline, fund potential future acquisitions and for general corporate purposes. On May 22, 2012, the Trust entered into two additional equity distribution agreements similar to the previous agreements discussed above. Under the 2012 agreements the Trust may issue and sell shares of its common stock having an aggregate offering amount of \$50 million. As of June 30, 2012, the Trust had sold no common stock under the 2012 agreements.

An additional source of capital, subject to appropriate market conditions, is the targeted disposition of non-strategic properties. We continually assess all of our communities, the markets in which they are located and the colleges and universities they serve, to determine if any dispositions are necessary or appropriate. The net proceeds from the sale of any asset would provide additional capital that would most likely be used to pay down debt and possibly finance acquisition/development growth or other operational needs.

The Trust completed the sale of five communities in January 2011 (see Note 8 to the accompanying condensed consolidated financial statements). These transactions culminated a significant repositioning of the Company's portfolio that began in the fourth quarter of 2010. The five communities included over 1,900 beds and were located at mostly smaller universities with limited barriers to entry. With a total sales price of approximately \$46.1 million, the dispositions reduced outstanding debt by \$16.1 million and provided net cash proceeds, after costs, of approximately \$29.7 million.

In the second quarter of 2011, we completed the sale of two non-core assets, Collegiate Village, serving Macon State University, and Clayton Station, serving Clayton State University, for an aggregate sale price of \$28.0 million (see Note 8 to the accompanying condensed consolidated financial statements). The net proceeds of approximately \$28.0 million were used to fund development and acquisition activity and for general working capital purposes.

We intend to invest in additional communities only as suitable opportunities arise. We also plan to develop communities for our ownership and management. In the short term, we intend to fund any acquisitions or developments with working capital, borrowings under first mortgage property secured debt, construction loans or borrowings under our Third Amended Revolver. We intend to finance property acquisitions and development projects over the longer term with cash from operations, the proceeds from potential asset sales, additional issuances of common or preferred stock, private capital in the form of joint ventures, debt financing and issuances of units in our Operating Partnership. There can be no assurance, however, that such funding will be obtained on reasonable terms, or at all, particularly in light of current capital market conditions.

We have eight active development projects that we are developing for our ownership with anticipated aggregate project costs of \$300.8 million. Through June 30, 2012, \$69.1 million of the anticipated costs have been incurred and funded.

In January 2012, we completed the purchase of The Reserve on Stinson, near the University of Oklahoma in Norman, Oklahoma for a purchase price of \$22.9 million. We previously owned a 10% equity interest in the community and managed the property prior to the acquisition. The Reserve on Stinson has 612 beds and is less than a half-mile from campus.

During 2011, we completed eight collegiate housing community acquisitions (see Note 7 to the accompanying condensed consolidated financial statements) for approximately \$193.4 million after acquisition costs. The Trust funded these acquisitions with assumed debt of \$36.9 million and existing cash, including cash proceeds generated by the January and November 2011 common stock offerings and sales of collegiate housing communities as discussed above.



On October 21, 2011, the Trust filed a new universal shelf registration statement, which permits us to issue up to \$500 million in securities, including equity or debt securities, from time to time in one or more transactions, depending on market conditions and terms. That universal shelf registration statement was declared effective on October 28, 2011. As of June 30, 2012, \$369.9 million of registered securities remained available for issuance.

### **Predevelopment expenditures**

Our third-party development consulting activities have historically required us to fund predevelopment expenditures such as architectural fees, permits and deposits. Because the closing of a development project's financing is often subject to third-party delay, we cannot always predict accurately the liquidity needs of these activities. We frequently incur these predevelopment expenditures before a financing commitment has been obtained and, accordingly, bear the risk of the loss of these predevelopment expenditures if financing cannot ultimately be arranged on acceptable terms. However, we typically obtain a guarantee of repayment of these predevelopment expenditures from the project owner, but no assurance can be given that we would be successful in collecting the amount guaranteed in the event that project financing is not obtained. When we develop projects for ownership, as opposed to our third-party development services, all exposure to risks and capital requirements for these developments remain with us.

### **Long-term liquidity requirements**

Our long-term liquidity requirements consist primarily of funds necessary for scheduled debt maturities, renovations and other non-recurring capital expenditures that are needed periodically for our communities. We expect to meet these needs through existing working capital, cash provided by operations, additional borrowings under our Third Amended Revolver, net proceeds from potential asset sales, the issuance of equity instruments, including common or preferred stock, Operating Partnership units or additional debt, if market conditions permit. We believe these sources of capital will be sufficient to provide for our long-term capital needs. Market conditions, however, may make additional capital more expensive for us. There can be no assurance that we will be able to obtain additional financing under satisfactory conditions, or at all, or that we will make any investments in additional communities. Our Third Amended Revolver is a material source to satisfy our long-term liquidity requirements. As such, compliance with the financial and operating debt covenants is material to our liquidity. As of June 30, 2012, we were in compliance with all covenants related to our Third Amended Revolver.

### **Commitments**

For the six months ended June 30, 2012, our commitments, contingencies and contractual obligations were not materially different from the amounts reported for the year ended December 31, 2011, except for the net decrease in debt of \$17.9 million discussed above under "Liquidity and Capital Resources."

## Distributions

We are required to distribute 90% of our REIT taxable income (excluding the deduction for dividends paid and net capital gains) on an annual basis in order to qualify as a REIT for federal income tax purposes. Accordingly, we intend to make, but are not contractually bound to make, regular quarterly distributions to holders of our common stock and Operating Partnership units. All such distributions are authorized at the discretion of our Board of Directors. We may be required to use borrowings under our Third Amended Revolver, if necessary, to meet REIT distribution requirements, avoid the imposition of federal income and excise taxes and maintain our REIT status. Additionally, we may make certain distributions consisting of both cash and shares to meet REIT distribution requirements. We consider market factors and our performance in addition to REIT requirements in determining distribution levels. During the third quarter of 2011, our Board of Directors increased the annual dividend target 40% from \$0.20 to \$0.28 per share/unit becoming effective with the August 16, 2011 dividend. During July of 2012, our Board of Directors increased the annual dividend target 43% from \$0.28 to \$.40 per share/unit becoming effective with the August 15, 2012 dividend.

As discussed above, our Board of Directors declared a second quarter distribution of \$0.10 per share of common stock for the quarter ended on June 30, 2012. The distribution is payable on August 15, 2012 to stockholders of record at the close of business on July 31, 2012.

### **Off-Balance Sheet Arrangements**

The Operating Partnership entered into a letter of credit agreement in conjunction with the closing of the acquisition of a collegiate housing community at the University of Florida. As of June 30, 2012 the mortgage debt on this community was repaid (see Note 4 to the accompanying condensed consolidated financial statements), and the \$1.5 million letter of credit is no longer outstanding.

The Operating Partnership serves as non-recourse, carve-out guarantor, for secured third party debt in the amount of \$24.4 million, held by one unconsolidated joint venture. The Operating Partnership is liable to the lender for any loss, damage, cost, expense, liability, claim or other obligation incurred by the lender arising out of or in connection with certain non-recourse exceptions in connection with the debt. Pursuant to the respective operating agreement, the joint venture partner agreed to indemnify, defend and hold harmless the Trust with respect to such obligations, except to the extent such obligations were caused by the willful misconduct, gross negligence, fraud or bad faith of the Operating Partnership or its employees, agents or affiliates. Therefore, exposure under the guarantee for obligations not caused by the willful misconduct, gross negligence, fraud or bad faith of the Operating Partnership or its employees, agents or affiliates is not expected to exceed the Operating Partnership's proportionate interest in the related mortgage debt.

In connection with the development agreement entered into on July 14, 2010 for a project at the Science + Technology Park at Johns Hopkins Medical Institute (see Note 2 to the accompanying condensed consolidated financial statements), the Trust has committed to provide a guarantee of repayment of a \$42.0 million third-party construction loan for a \$3.0 million fee. The guarantee fee will not be recognized until the second mortgage loan is repaid. The project will have a \$2.5 million reserve to fund any operating or debt service shortfalls that are to be replenished annually by East Baltimore Development, Inc., until a 1.10 debt service coverage ratio is achieved for twelve consecutive months. The second mortgage loan and related debt service are the first at risk if such reserve is not adequate to cover operating expenses and debt service on the construction loan.

In connection with the condominium agreement related to The Oaks on the Square project in Storrs, Connecticut (see Note 7 to the accompanying condensed consolidated financial statements) the Operating Partnership and LeylandAlliance LLC have jointly committed to provide a guarantee of repayment of a \$46.4 million construction loan to develop the residential and retail portions of the project. As of June 30, 2012 and December 31, 2011, \$14.0 million and \$1.5 million, respectively, had been drawn on the construction loan of which \$3.2 million and \$0.6 million, respectively, is attributable to LeylandAlliance LLC; these amounts are not included in our accompanying condensed consolidated financial statements.

## **Inflation**

Our collegiate housing leases typically do not have terms that extend beyond twelve months. Accordingly, although on a short-term basis we would be required to bear the impact of rising costs resulting from inflation, we have the opportunity to raise rental rates at least annually to offset such rising costs. However, our ability to raise rental rates may be limited by a weak economic environment, increased competition from new collegiate housing in our primary markets and/or a reduction in student enrollment at our principal colleges and universities.

## **Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

Our future income, cash flows and fair values relevant to financial instruments are dependent upon prevailing market interest rates. Market risk refers to the risk of loss from adverse changes in market prices and interest rates. The Trust's interest rate risk objective is to limit the impact of interest rate fluctuations on earnings and cash flows and to lower its overall borrowing costs. To achieve this objective, the Trust manages its exposure to fluctuations in market interest rates for its borrowings through the use of fixed rate debt instruments to the extent that reasonably favorable rates are obtainable.

For fixed rate debt, interest rate changes affect the fair market value but do not impact net income to common stockholders or cash flows. Conversely, for floating rate debt, interest changes generally do not affect the fair market value but do impact net income to common stockholders and cash flows, assuming other factors are held constant. As of June 30, 2012, we had fixed rate debt of \$223.4 million. Holding other variables constant, a 100 basis point increase in interest rates would cause an \$8.4 million decline in the fair value for our fixed rate debt. Conversely, a 100 basis point decrease in interest rates would cause an \$8.9 million increase in the fair value of our fixed rate debt. As of June 30, 2012, 65.6% of the outstanding principal amounts of our mortgage notes payable on the properties we own have fixed interest rates with a weighted average interest rate of 5.85% and an average term to maturity of 4.25 years.

As of June 30, 2012, we had \$36.6 million of variable rate mortgage debt assumed in connection with the acquisition of the GrandMarc at Westberry Place collegiate housing community located at Texas Christian University. The interest rate per annum applicable to the loan is equal to a base rate plus a 4.85% margin, in total not to exceed 7.5% per annum, and principal and interest are paid on a monthly basis. The loan matures on January 1, 2020. As of June 30, 2012, the interest rate applicable to the loan was 4.89%.

As of June 30, 2012, we had borrowed \$50.6 million on variable rate construction loans related to the development of wholly owned collegiate apartment communities. These loans bear interest equal to a base rate or LIBOR plus an applicable margin with \$8.5 million, \$31.3 million and \$10.7 million maturing in 2013, 2014 and 2015, respectively. As of June 30, 2012, the weighted average interest rate applicable to these loans was 2.33%.

As of June 30, 2012, we had borrowed \$30.0 million on the Third Amended Revolver. The interest rate per annum applicable to the Third Amended Revolver is, at the Operating Partnership's option, equal to a base rate or LIBOR plus an applicable margin based upon our leverage. As of June 30, 2012, the interest rate applicable to the Third Amended Revolver was 1.88%.

#### **Item 4. Controls and Procedures.**

##### **Management's Evaluation of Disclosure Controls and Procedures**

The Trust maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Trust's filings under the Securities Exchange Act of 1934 (the "Exchange Act") is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and to ensure that such information is accumulated and communicated to the Trust's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of the Trust's disclosure controls and procedures (as defined in Rule 13a-15(e) or 15d-15(e) of the Exchange Act) as of June 30, 2012. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of June 30, 2012, the Trust's disclosure controls and procedures were effective in causing material information relating to the Trust to be recorded, processed, summarized and reported by management on a timely basis and to ensure the quality and timeliness of our public disclosures with SEC disclosure obligations.

#### **Changes in Internal Control Over Financial Reporting**

There were no changes in the Trust's internal control over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) of the Exchange Act) during the quarter ended June 30, 2012 that materially affected, or are reasonably likely to materially affect, the Trust's internal control over financial reporting.

## **PART II — Other Information**

### **Item 1. Legal Proceedings.**

In the normal course of business, we are subject to claims, lawsuits and legal proceedings. While it is not possible to ascertain the ultimate outcome of such matters, in management's opinion, the liabilities, if any, in excess of amounts provided or covered by insurance, are not expected to have a material effect on our financial position, results of operations or liquidity.

### **Item 1A. Risk factors.**

The discussion of the Trust's business and operations should be read together with the risk factors contained in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2011, which describes various risks and uncertainties to which we are or may be subject. These risks and uncertainties have the potential to affect the Trust's business, financial condition, results of operations, cash flows and prospects in a material adverse manner.

### **Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.**

#### *Issuer Purchases of Equity Securities*

During the three months ended June 30, 2012, in connection with our Amended and Restated Dividend Reinvestment and Stock Purchase Plan ("DRSPP") for our common stockholders, we directed the plan administrator to purchase 367 shares of our common stock for approximately \$4,196 in the open market pursuant to the dividend reinvestment component of the plan with respect to our dividend for the first of 2012. We also directed the plan administrator to purchase 524 shares of our common stock for approximately \$5,838 in the open market for investors pursuant to the direct stock purchase component of the plan. The following chart summarizes these purchases of our common stock for the three months ended June 30, 2012.

| Period | Total Number | Average Price Paid per | Total Number of     | Maximum    |
|--------|--------------|------------------------|---------------------|------------|
|        |              | Share                  | Shares Purchased as | Number (or |

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|                  | <b>of Shares</b>    |    | Part of Publicly   | Approximate      |
|------------------|---------------------|----|--------------------|------------------|
|                  | <b>Purchased(1)</b> |    | Announced Plans or | Dollar Value) of |
|                  |                     |    | Programs           | Shares that May  |
|                  |                     |    |                    | Yet Be           |
|                  |                     |    |                    | Purchased        |
|                  |                     |    |                    | Under the Plans  |
|                  |                     |    |                    | or Programs      |
| April 1-30, 2012 | 124                 | \$ | 10.77              |                  |
| May 1-31, 2012   | 630                 |    | 11.42              |                  |
| June 1-30, 2012  | 137                 |    | 10.89              |                  |
| Total            | 891                 | \$ | 11.26              |                  |

(1) All shares purchased in the open market pursuant to the terms of our DRSP. Our Board authorized the issuance or purchase of 4,000,000 shares of common stock under the DRSP, which was adopted in June 2008.

*Redemption of Operating Partnership Units*

On March 5, 2012, we redeemed 43,832 Operating Partnership units for 43,832 shares of our common stock. The issuance of the shares of common stock was exempt from all registration requirements pursuant to the exemption set forth in Section 4(2) of the Securities Act of 1933, as amended.



**Item 3. Defaults Upon Senior Securities.**

None.

**Item 4. Mine Safety Disclosures.**

Not applicable.

**Item 5. Other Information.**

None.

**Item 6. Exhibits.**

The exhibits listed on the accompanying Exhibit Index are filed, furnished or incorporated by reference (as stated therein) as part of this Report.

## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

EDUCATION REALTY  
TRUST, INC.

Date: August 3, 2012 By/s/ Randy Churchey  
Randy Churchey  
President, Chief  
Executive Officer and  
Director (Principal  
Executive Officer)

Date: August 3, 2012 By/s/ Randall H. Brown  
Randall H. Brown  
Executive Vice  
President, Chief  
Financial  
Officer, Treasurer and  
Secretary  
(Principal Financial  
Officer)

Date: August 3, 2012 By/s/ J. Drew Koester  
J. Drew Koester  
Senior Vice President,  
Assistant Secretary and  
Chief Accounting  
Officer  
(Principal Accounting  
Officer)

## EXHIBIT INDEX

Exhibit  
No.

- 3.1 Second Articles of Amendment and Restatement of Education Realty Trust, Inc. (Incorporated by reference to Exhibit 3.1 to the Trust's Amendment No. 2 to its Registration Statement on Form S-11 (File No. 333-119264), filed on December 10, 2004).
- 3.2 Amended and Restated Bylaws of Education Realty Trust, Inc. (Incorporated by reference to Exhibit 3.2 to the Trust's Current Report on Form 8-K, filed on February 20, 2009).
- 4.1 Form of Certificate for Common Stock of Education Realty Trust, Inc. (Incorporated by reference to Exhibit 4.1 to the Trust's Annual Report on Form 10-K, filed on March 16, 2010).
- 12 Consolidated Ratio of Earnings to Fixed Charges (filed herewith).
- 31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Exchange Act (filed herewith).
- 31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Exchange Act (filed herewith).
- 32.1 Chief Executive Officer certification pursuant to 18 U.S.C. Section 1350, adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).
- 32.2 Chief Financial Officer certification pursuant to 18 U.S.C. Section 1350, adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).
- 101.INS XBRL Instance Document\*
- 101. SCH XBRL Taxonomy Extension Schema Document\*
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document\*
- 101.LAB XBRL Taxonomy Extension Label Linkbase Document \*
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document\*
- 101.DEF XBRL Taxonomy Extension Definition Linkbase Document\*

\* Attached as Exhibit 101 to this Quarterly Report on Form 10-Q are the following materials, formatted in XBRL (eXtensible Business Reporting Language): (i) the Condensed Consolidated Balance Sheets as of June 30, 2012 and December 31, 2011, (ii) the Condensed Consolidated Statements of Operations for the six months ended June 30, 2012 and 2011, (iii) the Condensed Consolidated Statements of Operations for the three months ended June 30, 2012 and 2011, (iv) the Condensed Consolidated Statements of Changes in Equity for the six months ended June 30, 2012 and 2011, (v) the Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2012 and

2011 and (vi) the Notes to the Condensed Consolidated Financial Statements.

Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.