Education Realty Trust, Inc.
Form 10-Q
November 06, 2012
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
(Mark One)

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

For the quarterly period ended September 30, 2012
Or

| | |
|---|---|
| o | TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 |

For the transition period from to

Commission File Number: 001-32417
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) |

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 x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

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

| | |
|---|---|
| Large accelerated filer o | Accelerated filer x |
| Non-accelerated filer o<br>(Do not check if a smaller reporting company) | Smaller reporting company o |

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

As of November 2, 2012, the latest practicable date, the Registrant had outstanding 113,020,825 shares of common stock, $0.01 par value per share.

Table of Contents

EDUCATION REALTY TRUST, INC.
FORM 10-Q
QUARTER ENDED SEPTEMBER 30, 2012
TABLE OF CONTENTS

1

Table of Contents

Part I — Financial Information

Item 1. Financial Statements.

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

| | September 30, 2012 | December 31, 2011 |
|---|---|---|
| ASSETS | | |
| Assets: | | |
| Collegiate housing properties, net | $797,427 | $803,519 |
| Assets under development | 181,391 | 56,648 |
| Corporate office furniture, net | 2,838 | 574 |
| Cash and cash equivalents | 127,623 | 75,813 |
| Restricted cash | 5,995 | 4,826 |
| Student contracts receivable, net | 497 | 347 |
| Receivable from managed third parties | 696 | 933 |
| Notes receivable | 21,000 | 18,000 |
| Goodwill and other intangibles, net | 3,063 | 3,965 |
| Other assets | 29,421 | 13,184 |
| Total assets | $1,169,951 | $977,809 |
| LIABILITIES AND EQUITY | | |
| Liabilities: | | |
| Mortgage and construction loans, net of unamortized premium/discount | $322,549 | $358,504 |
| Accounts payable | 2,523 | 3,933 |
| Accrued expenses | 47,295 | 27,833 |
| Deferred revenue | 18,980 | 14,409 |
| Total liabilities | 391,347 | 404,679 |
| Commitments and contingencies (see Note 6) | — | — |
| Redeemable noncontrolling interests | 9,066 | 9,776 |
| Equity: | | |
| Common stock, $0.01 par value per share, 200,000,000 shares authorized, 112,863,970 and 91,800,688 shares issued and outstanding as of September 30, 2012 and December 31, 2011, respectively | 1,129 | 918 |
| Preferred stock, $0.01 par value per share, 50,000,000 shares authorized, no shares issued and outstanding | — | — |
| Additional paid-in capital | 861,389 | 662,657 |
| Accumulated deficit | (98,075) | (101,708) |
| Total Education Realty Trust, Inc. stockholders' equity | 764,443 | 561,867 |
| Noncontrolling interests | 5,095 | 1,487 |
| Total equity | 769,538 | 563,354 |
| Total liabilities and equity | $1,169,951 | $977,809 |

See accompanying notes to the condensed consolidated financial statements.

2

Table of Contents

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

| | Nine months ended September 30, 2012 | Nine months ended September 30, 2011 |
|---|---|---|
| Revenues: | | |
| Collegiate housing leasing revenue | $94,285 | $72,363 |
| Third-party development consulting services | 490 | 3,481 |
| Third-party management services | 2,451 | 2,425 |
| Operating expense reimbursements | 7,414 | 6,376 |
| Total revenues | 104,640 | 84,645 |
| Operating expenses: | | |
| Collegiate housing leasing operations | 48,770 | 38,720 |
| Development and management services | 4,756 | 4,132 |
| General and administrative | 5,901 | 4,659 |
| Depreciation and amortization | 25,268 | 19,220 |
| Ground lease expense | 4,716 | 4,097 |
| Reimbursable operating expenses | 7,414 | 6,376 |
| Total operating expenses | 96,825 | 77,204 |
| Operating income | 7,815 | 7,441 |
| Nonoperating expenses: | | |
| Interest expense | 10,941 | 13,036 |
| Amortization of deferred financing costs | 911 | 900 |
| Interest income | (152) | (129) |
| Loss on extinguishment of debt | — | 351 |
| Total nonoperating expenses | 11,700 | 14,158 |
| Loss before equity in earnings (losses) of unconsolidated entities, income taxes and discontinued operations | (3,885) | (6,717) |
| Equity in earnings (losses) of unconsolidated entities | (340) | (408) |
| Loss before income taxes and discontinued operations | (4,225) | (7,125) |
| Income tax benefit | (1,117) | (278) |
| Loss from continuing operations | (3,108) | (6,847) |
| Income from discontinued operations | 6,767 | 1,672 |
| Net income (loss) | 3,659 | (5,175) |
| Less: Net income attributable to the noncontrolling interests | 26 | 60 |
| Net income (loss) attributable to Education Realty Trust, Inc. | $3,633 | $(5,235) |
| | | |
| Earnings per share information: | | |
| Income (loss) attributable to Education Realty Trust, Inc. common stockholders per share – basic and diluted: | | |
| Continuing operations | $(0.03) | $(0.10) |
| Discontinued operations | 0.07 | 0.03 |
| Net income attributable to Education Realty Trust, Inc. common stockholders per share | $0.04 | $(0.07) |
| Weighted average shares of common stock outstanding – basic and diluted | 97,259 | 72,040 |
| Amounts attributable to Education Realty Trust, Inc. – common stockholders: | | |
| Loss from continuing operations, net of tax | $(3,083) | $(6,886) |
| Income from discontinued operations, net of tax | 6,716 | 1,651 |

| | | |
|---|---|---|
| Net income (loss) | $3,633 | $(5,235) |
| Distributions per share of common stock | $0.24 | $0.17 |

See accompanying notes to the condensed consolidated financial statements.

Table of Contents

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

| | Three months ended September 30, 2012 | Three months ended September 30, 2011 |
|---|---|---|
| Revenues: | | |
| Collegiate housing leasing revenue | $30,464 | $23,431 |
| Third-party development consulting services | 145 | 1,132 |
| Third-party management services | 879 | 846 |
| Operating expense reimbursements | 3,015 | 2,503 |
| Total revenues | 34,503 | 27,912 |
| Operating expenses: | | |
| Collegiate housing leasing operations | 19,861 | 15,920 |
| Development and management services | 1,493 | 1,466 |
| General and administrative | 1,851 | 1,700 |
| Depreciation and amortization | 8,757 | 6,376 |
| Ground lease expense | 1,696 | 1,365 |
| Reimbursable operating expenses | 3,015 | 2,503 |
| Total operating expenses | 36,673 | 29,330 |
| Operating loss | (2,170) | (1,418) |
| Nonoperating expenses: | | |
| Interest expense | 3,354 | 4,176 |
| Amortization of deferred financing costs | 288 | 352 |
| Interest income | (108) | (37) |
| Total nonoperating expenses | 3,534 | 4,491 |
| Loss before equity in earnings (losses) of unconsolidated entities, income taxes and discontinued operations | (5,704) | (5,909) |
| Equity in earnings (losses) of unconsolidated entities | (39) | (390) |
| Loss before income taxes and discontinued operations | (5,743) | (6,299) |
| Income tax benefit | (638) | (60) |
| Loss from continuing operations | (5,105) | (6,239) |
| Income (loss) from discontinued operations | 5,474 | (318) |
| Net income (loss) | 369 | (6,557) |
| Less: Net loss attributable to the noncontrolling interests | (120) | (91) |
| Net income (loss) attributable to Education Realty Trust, Inc. | $489 | $(6,466) |
| | | |
| Earnings per share information: | | |
| Income (loss) attributable to Education Realty Trust, Inc. common stockholders per share – basic and diluted: | | |
| Continuing operations | $(0.05) | $(0.09) |
| Discontinued operations | 0.05 | — |
| Net income (loss) attributable to Education Realty Trust, Inc. common stockholders per share | $— | $(0.09) |
| Weighted average shares of common stock outstanding – basic and diluted | 103,929 | 73,061 |
| Amounts attributable to Education Realty Trust, Inc. – common stockholders: | | |
| Loss from continuing operations, net of tax | $(4,944) | $(6,153) |

| | | |
|---|---|---|
| Income (loss) from discontinued operations, net of tax | 5,433 | (313 ) |
| Net income (loss) | $489 | $(6,466 ) |
| Distributions per share of common stock | $0.10 | $0.07 |

See accompanying notes to the condensed consolidated financial statements.

Table of Contents

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Amounts in thousands, except share data)
(Unaudited)

| | Common Stock | | Additional | | | |
|---|---|---|---|---|---|---|
| | Shares | Amount | Paid-In Capital | Accumulated Deficit | Noncontrolling 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 | 17,339,251 | 174 | 128,133 | — | — | 128,307 |
| Amortization of restricted stock | 80,202 | 1 | 913 | — | — | 914 |
| Cash dividends | — | — | (12,289) | — | — | (12,289) |
| Net loss | — | — | — | (5,235) | — | (5,235) |
| Balance, September 30, 2011 | 76,120,789 | $762 | $531,967 | $(95,929) | $ — | $436,800 |
| 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 | 20,960,325 | 210 | 220,038 | — | — | 220,248 |
| Amortization of restricted stock | 70,671 | 1 | 991 | — | — | 992 |
| Cash dividends | — | — | (22,657) | — | — | (22,657) |
| Return of equity to noncontrolling interests | — | — | — | — | (321) | (321) |
| Contributions from noncontrolling interests | — | — | — | — | 4,039 | 4,039 |
| Net income (loss) | — | — | — | 3,633 | (110) | 3,523 |
| Balance, September 30, 2012 | 112,863,970 | $1,129 | $861,389 | $(98,075) | $ 5,095 | $769,538 |

See accompanying notes to the condensed consolidated financial statements.

Table of Contents

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in thousands)
(Unaudited)

| | Nine months ended September 30, 2012 | Nine months ended September 30, 2011 |
|---|---|---|
| Operating activities: | | |
| Net income (loss) | $3,659 | $(5,175) |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | |
| Depreciation and amortization | 25,268 | 19,220 |
| Depreciation included in discontinued operations | 1,339 | 1,934 |
| Deferred tax benefit | — | (37) |
| Loss on disposal of assets | 70 | 19 |
| Gain on sale of collegiate housing property in discontinued operations | (5,427) | (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 | 3,208 | 3,157 |
| Amortization of deferred financing costs | 911 | 930 |
| Amortization of deferred financing costs included in discontinued operations | — | 2 |
| Loss on interest rate cap | — | 5 |
| Amortization of unamortized debt premiums | (91) | (294) |
| Distributions of earnings from unconsolidated entities | 146 | 498 |
| Noncash compensation expense related to stock-based incentive awards | 1,266 | 1,153 |
| Equity in losses of unconsolidated entities | 340 | 408 |
| Change in operating assets and liabilities | 12,373 | 5,691 |
| Net cash provided by operating activities | 43,062 | 25,880 |
| Investing activities: | | |
| Property acquisitions, net of cash acquired | (72,952) | (77,081) |
| Purchase of corporate furniture and fixtures | (2,708) | (78) |
| Restricted cash | (1,169) | 191 |
| Insurance proceeds on property losses | 5,000 | — |
| Investment in collegiate housing properties | (12,442) | (19,413) |
| Proceeds from sale of collegiate housing properties | 42,340 | 57,515 |
| Payments on notes receivable | 1,800 | 75 |
| Loans to developments | (3,000) | (8,128) |
| Earnest money deposits | (1,050) | (575) |
| Investment in assets under development | (107,793) | (32,997) |
| Distributions from unconsolidated entities | 82 | — |
| Net cash used in investing activities | (151,892) | (80,491) |
| Financing activities: | | |
| Payment of mortgage and construction notes | (78,217) | (22,285) |
| Payment of offering costs | (592) | (496) |
| Debt issuance costs | (225) | (1,154) |
| Borrowing on long-term debt | 42,354 | 6,908 |
| Debt extinguishment costs | — | (351) |
| Repayments of line of credit | (45,000) | (3,700) |
| Borrowings on line of credit | 45,000 | — |
| Proceeds from common stock offering | 220,400 | 128,786 |

| | | |
|---|---|---|
| Dividends and distributions paid to common and restricted stockholders | (22,729 ) | (12,289 ) |
| Dividends and distributions paid to noncontrolling interests | (351 ) | (424 ) |
| Net cash provided by financing activities | 160,640 | 94,995 |
| Net increase in cash and cash equivalents | 51,810 | 40,384 |
| Cash and cash equivalents, beginning of period | 75,813 | 6,958 |
| Cash and cash equivalents, end of period | $127,623 | $47,342 |

See accompanying notes to the condensed consolidated financial statements.

Table of Contents

| | Nine months ended September 30, 2012 | Nine months ended September 30, 2011 |
|---|---|---|
| Supplemental disclosure of cash flow information: | | |
| Interest paid | $13,803 | $14,701 |
| Income taxes paid | $101 | $290 |
| Supplemental disclosure of noncash activity: | | |
| Redemption of redeemable noncontrolling interests from unit holder | $424 | $— |

See accompanying notes to the condensed consolidated financial statements.

Table of Contents

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 wholly-owned 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

Table of Contents

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 Trust reclassified regional and corporate costs of supporting our owned communities to collegiate housing leasing operations. The reclassification 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 September 30, 2012, the Trust had $119.5 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.

Notes receivable

During the nine months ended September 30, 2012, the Trust entered in to a mezzanine loan and purchase option agreement with Landmark Properties Holdings, LLC ("Landmark") for the purpose of developing a cottage-style collegiate housing community at Pennsylvania State University in State College, Pennsylvania. The community will be wholly owned by Landmark and a construction loan will be used to fund 80% of the development. The Trust provided $3.0 million of mezzanine financing at an interest rate of 10% per annum and was granted an option to purchase the community in 2013, 2014 or 2015. As of September 30, 2012, the mezzanine financing is recorded in notes receivable in the accompanying condensed consolidated balance sheet. In the event the Trust does not exercise the purchase option by 2015, the mezzanine loan will be due at the earlier of when written notice is received by Landmark from the Trust or when the construction loan is repaid. The mezzanine loan is secured by 100% of Landmark's equity interest in the Pennsylvania State University development and Landmark's equity interest in the joint venture currently being developed near the University of Mississippi campus (see Note 7).

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 manages 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 September 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 Trust does not have an ownership interest in 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

Table of Contents

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 September 30, 2012, the Trust would have recognized development services revenue net of costs of $1.9 million, guarantee fee revenue of $3.0 million and interest income of $3.3 million since the commencement of the project.

The carrying value of notes receivable approximate 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 notes receivable is classified as Level 3 under the fair value hierarchy.

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 nine months ended September 30, 2012 and 2011, 13 properties were classified as discontinued operations in the accompanying condensed consolidated statements of operations for all periods presented. All 13 of these properties were sold by September 30, 2012 (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 nine months ended September 30, 2012 and 2011, the Trust recognized $4.7 million and $4.1 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 statements of changes in equity.

On August 14, 2012, the Trust completed a follow-on offering of 17.3 million shares of its common stock, which included 2.3 million shares purchased by the underwriters pursuant to an option to purchase additional shares. The Trust received approximately $180.9 million in net proceeds from the offering after deducting the underwriting discount and other offering expenses. The Trust used a portion of the net proceeds to repay the unsecured revolving credit facility (see Note 4) and to fund the acquisition of The Province at East Carolina University (see Note 7) and will use the remaining net proceeds to repay debt, fund its development pipeline, fund potential future acquisitions and for general corporate purposes.

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 over-allotment 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 over-allotment 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 from the 2011 offerings to repay debt, fund its development pipeline, fund 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 September 30, 2012, the Trust had sold 4.8 million shares of common stock under the 2011 equity distribution program for net proceeds of approximately $49.2 million and reached the aggregate offering amount of $50 million. 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 could issue and sell shares of its common stock having an aggregate offering amount of $50 million. As of

September 30, 2012, the Trust had sold $0.1 million shares of common stock under the 2012 agreements for net proceeds of approximately $1.1 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 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 nine months ended September 30, 2012 and 2011, total compensation expense relating to the ESPP was $18,128 and $18,449, respectively.

Debt premiums/discounts

Table of Contents

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 September 30, 2012 and 2011. As of September 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 September 30, 2012, open tax years generally included 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 September 30, 2012 and 2011, the Trust had no interest or penalties recorded related to unrecognized tax benefits.

Noncontrolling interests

As of September 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 statements of changes in equity and net income attributable to noncontrolling interests in the accompanying condensed consolidated statements 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 for cash or, at the option of the Trust, shares of the Trust's common stock on a one-for-one basis 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 September 30, 2012, the Trust reported the redeemable noncontrolling interests at historical cost, which was greater than fair value of $6.3 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 nine months ended September 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

Table of Contents

presented.

As of September 30, 2012 and 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:

| | 2012 | 2011 |
|---|---|---|
| Operating Partnership Units | 859,906 | 903,738 |
| University Towers Operating Partnership Units | 207,257 | 207,257 |
| Total potentially dilutive securities | 1,067,163 | 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 nine months ended September 30, 2012 and 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 September 30, 2012. The carrying value of goodwill was $3.1 million as of September 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. We had no other intangible assets as of September 30, 2012 and other intangible assets with a carrying value of $0.9 million as of December 31, 2011.

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 nine months ended September 30, 2012 and 2011, there was $0.2 million and $0.5 million

Table of Contents

revenue recognized, respectively, related to cost savings agreements on development projects.

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 as the Trust will continue to assess goodwill impairment based on quantitative measures.

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 that the accounting for such transactions is based on substance rather than 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 had no material impact on the Trust's condensed consolidated financial statements.

3. Investments in unconsolidated entities

During the nine months ended September 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

Table of Contents

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 nine months ended September 30, 2012 and 2011:

| | 2012 | 2011 |
|---|---|---|
| | (In thousands) | |
| Results of Operations: | | |
| Revenues | $2,867 | $7,974 |
| Net loss | (2,565) | (3,777) |
| Equity in earnings (losses) of unconsolidated entities | $(340) | $(408) |

As of September 30, 2012 and December 31, 2011, the Trust had $107 and $28,751 in investments in unconsolidated entities classified in other assets in the accompanying condensed consolidated balance sheets, respectively. As of September 30, 2012 and December 31, 2011, the Trust had $1.5 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 sheets (see Note 2).

During the nine months ended September 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 September 30, 2012, our borrowing base was $175.0 million, and we had no amounts outstanding under the Third Amended Revolver.

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. If amounts are drawn, 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, and 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 September 30, 2012, the Trust was in compliance with all covenants of the Third Amended Revolver.

During the nine months ended September 30, 2012, the Trust used $45.0 million of the proceeds received in connection with the stock offering that was conducted in August 2012 (see Note 2) to repay the outstanding balance of the Third Amended Revolver. During the nine months ended September 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 September 30, 2012, the Trust had outstanding mortgage and construction indebtedness of $322.6 million (excluding unamortized debt discount of $0.1 million). Of the total, $63.5 million and $36.5 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 $187.7 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 September 30, 2012 and December 31, 2011, the estimated fair value of the fixed rate mortgage debt was $233.3 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 September 30, 2012. During the nine months ended September 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 nine months ended September 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 September 30, 2012, the Trust had outstanding variable rate mortgage debt of $36.5 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 September 30, 2012, the interest rate applicable to the loan was 4.95%.

As of September 30, 2012, the Trust had borrowed $14.6 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 September 30, 2012, the interest rate applicable to the loan was 2.47%. On October 30, 2015, if certain conditions for extension are met, the Trust has the option to extend the loan until October 31, 2016. On October 30, 2016, if certain conditions are met, the Trust has 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 September 30, 2012, the Trust had borrowed $29.5 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 September 30, 2012, the interest rate applicable to the loan was 2.62%. 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.

Table of Contents

As of September 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 September 30, 2012, the interest rate applicable to the loan was 1.32%.

As of September 30, 2012, the Trust had $8.9 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 September 30, 2012, the interest rate applicable to the loan was 2.17%. 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.

As of September 30, 2012, the Trust had borrowed $1.7 million on a construction loan related to the development of a jointly owned collegiate housing community near the University of Mississippi (The Retreat). The Trust is the majority owner and managing member of the joint venture and will manage the community when completed (see Note 7). The interest rate per year applicable to the loan is, at the option of the Trust, equal to a base rate plus a 1.10% margin or LIBOR plus a 2.10% margin and is interest only through June 12, 2015. As of September 30, 2012, the interest rate applicable to the loan was 2.32%. 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.

As of September 30, 2012, the Trust had borrowed $0.2 million on a construction loan related to the development of a jointly owned collegiate housing community near the Arizona State University-Downtown Phoenix campus. The Trust is the majority owner and managing member of the joint venture and will manage the community when completed (see Note 7). The loan bears interest equal to LIBOR plus a 225 basis point margin and is interest only through March 20, 2015. As of September 30, 2012, the interest rate applicable to the loan was 2.47%. On March 20, 2015, if the debt service ratio is not less than 1.35 to 1 and an extension fee of 0.25% of the total outstanding principal is paid to the lender, the Trust may extend the loan until March 20, 2016. On March 20, 2016, if the debt service ratio is not less than 1.45 to 1 and an extension fee of 0.25% of the total outstanding principal is paid to the lender, the Trust can extend the loan until March 20, 2017. During the first and second extension periods, if applicable, principal and interest are to be repaid on a monthly basis.

During the nine months ended September 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 nine months ended September 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 September 30, 2012 are as follows:

Table of Contents

| Fiscal Year Ending | (In thousands) |
|---|---|
| 2012 (3 months ending December 31, 2012) | $951 |
| 2013 | 37,172 |
| 2014 | 65,914 |
| 2015 | 27,023 |
| 2016 | 67,650 |
| Thereafter | 123,921 |
| Total | 322,631 |
| Unamortized debt discounts | (82 ) |
| Outstanding as of September 30, 2012, net of unamortized discounts | $322,549 |

As of September 30, 2012, the outstanding mortgage and construction debt had a weighted average interest rate of 5.06% and carried a weighted average term to maturity of 3.98 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 nine months ended September 30, 2012 and 2011:

| | Nine Months Ended September 30, 2012 (In thousands) | | | | | Nine Months Ended September 30, 2011 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Collegiate Housing Leasing | Development Consulting Services | Management Services | Adjustments/ Eliminations | Total | Collegiate Housing Leasing | Development Consulting Services | Management Services | Adjustments/ Eliminations | Total |
| Segment revenues: | | | | | | | | | | |
| Collegiate housing leasing revenue | $94,285 | $— | $— | $— | $94,285 | $72,363 | $— | $— | $— | $72,363 |
| Third-party development consulting services | — | 688 | — | (198 ) | 490 | — | 4,833 | — | (1,352 ) | 3,481 |
| Third-party management services | — | — | 2,451 | — | 2,451 | — | — | 2,425 | — | 2,425 |
| Operating expense reimbursements | — | — | — | 7,414 | 7,414 | — | — | — | 6,376 | 6,376 |
| Total segment revenues | 94,285 | 688 | 2,451 | 7,216 | 104,640 | 72,363 | 4,833 | 2,425 | 5,024 | 84,645 |
| Segment operating | | | | | | | | | | |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| expenses: | | | | | | | | | | |
| Collegiate housing leasing operations | 48,770 | — | — | — | 48,770 | 38,720 | — | — | — | 38,720 |
| General and administrative | — | 2,704 | 2,096 | (44 ) | 4,756 | — | 2,559 | 1,982 | (419 ) | 4,122 |
| Reimbursable operating expenses | — | — | — | 7,414 | 7,414 | — | — | — | 6,376 | 6,376 |
| Total segment operating expenses | 48,770 | 2,704 | 2,096 | 7,370 | 60,940 | 38,720 | 2,559 | 1,982 | 5,957 | 49,218 |
| Segment net operating income (loss) (1) | $45,515 | $(2,016 ) | $355 | $(154 ) | $43,700 | $33,643 | $2,274 | $443 | $(933 ) | $35,427 |
| Total segment assets, as of September 30, 2012 and December 31, 2011 (2) | $1,008,762 | $4,438 | $8,864 | $— | $1,022,064 | $879,199 | $3,007 | $5,399 | $— | $887,605 |

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

18

Table of Contents

| | 2012 | 2011 |
|---|---|---|
| Net operating income for reportable segments | $43,700 | $35,427 |
| Other unallocated general and administrative expenses | (5,901) | (4,669) |
| Depreciation and amortization | (25,268) | (19,220) |
| Ground leases | (4,716) | (4,097) |
| Nonoperating expenses | (11,700) | (14,158) |
| Equity in earnings (losses) of unconsolidated entities | (340) | (408) |
| Loss before income taxes and discontinued operations | $(4,225) | $(7,125) |

(2) The increase in segment assets related to collegiate housing leasing is primarily related to the development of three communities that opened in the third quarter of 2012 and the continued development of eleven communities for ownership by the Trust. The increase is also related to the purchase of the collegiate housing communities referred to as the Reserve on Stinson in Norman, Oklahoma and The Province located in Greenville, North Carolina during the nine months ended September 30, 2012.

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

| | Three Months Ended September 30, 2012 (In thousands) | | | | | Three Months Ended September 30, 2011 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Collegiate Housing Leasing | Development Consulting Services | Management Services | Adjustments/ Eliminations | Total | Collegiate Housing Leasing | Development Consulting Services | Management Services | Adjustments/ Eliminations | Total |
| Segment revenues: | | | | | | | | | | |
| Collegiate housing leasing revenue | $30,464 | $ — | $ — | $ — | $30,464 | $23,431 | $ — | $ — | $ — | $23,431 |
| Third-party development consulting services | — | 185 | — | (40) | 145 | — | 1,560 | — | (428) | 1,132 |
| Third-party management services | — | — | 879 | — | 879 | — | — | 846 | — | 846 |
| Operating expense reimbursements | — | — | — | 3,015 | 3,015 | — | — | — | 2,503 | 2,503 |
| Total segment revenues | 30,464 | 185 | 879 | 2,975 | 34,503 | 23,431 | 1,560 | 846 | 2,075 | 27,912 |
| Segment operating expenses: | | | | | | | | | | |
| Collegiate housing leasing operations | 19,861 | — | — | — | 19,861 | 15,920 | — | — | — | 15,920 |
| General and administrative | — | 880 | 681 | (7) | 1,554 | — | 1,019 | 684 | (237) | 1,466 |
| | — | — | — | 3,015 | 3,015 | — | — | — | 2,503 | 2,503 |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Reimbursable operating expenses | | | | | | | | | | |
| Total segment operating expenses | 19,861 | 880 | 681 | 3,008 | 24,430 | 15,920 | 1,019 | 684 | 2,266 | 19,889 |
| Segment net operating income (loss) (1) | $10,603 | $ (695 ) | $ 198 | $ (33 ) | $10,073 | $7,511 | $ 541 | $ 162 | $ (191 ) | $8,023 |

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

| | 2012 | 2011 |
|---|---|---|
| Net operating income for reportable segments | $10,073 | $8,023 |
| Other unallocated general and administrative expenses | (1,790 ) | (1,700 ) |
| Depreciation and amortization | (8,757 ) | (6,376 ) |
| Ground leases | (1,696 ) | (1,365 ) |
| Nonoperating expenses | (3,534 ) | (4,491 ) |
| Equity in losses of unconsolidated entities | (39 ) | (390 ) |
| Loss before income taxes and discontinued operations | $(5,743 ) | $(6,299 ) |

19

Table of Contents

6. Commitments and contingencies

In July 2012, the Trust's 3949 Lindell community located in St. Louis, Missouri was destroyed by a fire, which is currently in the process of being rebuilt. This fire caused substantial business interruption and property damage, both of which are covered under the Trust's existing insurance policies. Management anticipates that the ultimate proceeds received from insurance will exceed the book value of the property destroyed, and accordingly a gain on insurance settlement will be recorded in a future period. Management anticipates that the gain will be recorded during 2013, once all contingencies have been resolved and the amount of the gain is determinable.

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 September 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 September 30, 2012 and December 31, 2011, $19.2 million and $1.5 million, respectively, had been drawn on the construction loan of which $4.6 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 any 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 September 30, 2012 and December 31, 2011, the Trust had reimbursable predevelopment costs of $2.5 million and $0.1 million, respectively, which are reflected in other assets in the accompanying condensed consolidated balance sheets.

Table of Contents

7. Acquisition and development of real estate investments

In September 2012, The Trust completed the purchase of The Province, near East Carolina University in Greenville, South Carolina for a purchase price of $50.0 million. 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 both acquisitions with existing cash, including cash proceeds generated by the August 2012 and November 2011 common stock offerings (see Note 2). A summary follows of the fair values of the assets acquired and the liabilities assumed as of the dates of the acquisitions (in thousands):

| | The Reserve on Stinson | The Province |
|---|---|---|
| Collegiate housing properties | $22,722 | $50,000 |
| Other assets | 232 | 104 |
| Current liabilities | (158) | (392) |
| Total net assets acquired | $22,796 | $49,712 |

The amount of the 2012 acquisitions' revenue and net loss included in the Trust’s accompanying condensed consolidated statement of operations for the nine months ended September 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 (loss) | Net income (loss) attributable to common stockholders per share- basic and diluted |
|---|---|---|---|
| | (in thousands) | | |
| Actual from date of acquisition through 9/30/12 | $2,469 | $464 | $— |
| 2012 supplemental pro forma earnings for 1/1/12-9/30/12 (1) | $107,882 | $4,750 | $0.05 |
| 2011 supplemental pro forma earnings for 1/1/11-9/30/11 (1) | $87,600 | $(5,217) | $(0.07) |

(1) Supplemental pro forma earnings for the nine months ended September 30, 2012 were adjusted to exclude $0.4 million of acquisition-related costs incurred in 2012. Supplemental pro forma earnings for the nine months ended September 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 | | Mar 2011 | 152 | 50 | $16.6 million |

| | | | | | |
|---|---|---|---|---|---|
| | University of Virginia, Charlottesville, VA | | | | |
| Jefferson Commons | University of Virginia, Charlottesville, VA | Mar 2011 | 82 | 22 | $6.4 million |
| The Berk | University of California, Berkeley, California | May 2011 | 167 | 55 | $16.0 million |
| University Village Towers(1) | 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(2) | 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.

(2) The Trust entered into a 53-year ground lease which requires an increase in annual rent expense to be determined 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