Education Realty Trust, Inc.
Form 10-Q
November 09, 2011

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, 2011

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.)
530 Oak Court Drive, Suite 300, Memphis, Tennessee	38117
(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 ¨

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 ¨

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 x
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 x

As of November 9, 2011, the latest practicable date, the Registrant had outstanding 91,986,441 shares of common stock, $0.01 par value per share.

EDUCATION REALTY TRUST, INC.
FORM 10-Q
QUARTER ENDED SEPTEMBER 30, 2011
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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)

	September 30, 2011	December 31, 2010
ASSETS		
Assets:		
Collegiate housing properties, net	$ 701,310	$ 652,603
Collegiate housing properties – held for sale	—	45,044
Assets under development	35,348	1,146
Corporate office furniture, net	576	855
Cash and cash equivalents	47,342	6,958
Restricted cash	4,600	4,791
Student contracts receivable, net	375	309
Receivable from managed third parties	477	527
Notes receivable	18,000	9,872
Goodwill and other intangibles, net	3,313	3,284
Other assets	14,392	11,291
Total assets	$ 825,733	$ 736,680
LIABILITIES AND EQUITY		
Liabilities:		
Mortgage and construction loans, net of unamortized premium/discount	$ 335,864	$ 367,631
Revolving line of credit	—	3,700
Accounts payable	1,920	984
Accrued expenses	25,486	17,340
Deferred revenue	14,783	12,243
Total liabilities	378,053	401,898
Commitments and contingencies (see Note 6)	—	—
Redeemable noncontrolling interests	10,880	10,039
Equity:		
Common stock, $0.01 par value per share, 200,000,000 shares authorized, 76,120,789 and 58,657,056 shares issued and outstanding at September 30, 2011 and December 31, 2010, respectively	762	587
Preferred stock, $0.01 par value per share, 50,000,000 shares authorized, no shares issued and outstanding	—	—
Additional paid-in capital	531,967	414,850
Accumulated deficit	(95,929)	(90,694)
Total equity	436,800	324,743
Total liabilities and equity	$ 825,733	$ 736,680

See accompanying notes to the condensed consolidated financial statements.

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

	Nine months ended September 30, 2011	Nine months ended September 30, 2010
Revenues:		
Collegiate housing leasing revenue	$77,428	$69,726
Third-party development consulting services	3,481	1,675
Third-party management services	2,425	2,335
Operating expense reimbursements	6,376	11,017
Total revenues	89,710	84,753
Operating expenses:		
Collegiate housing leasing operations	38,669	35,204
Development and management services	4,132	3,834
General and administrative	7,786	7,827
Depreciation and amortization	20,704	17,977
Ground lease expense	4,097	512
Reimbursable operating expenses	6,376	10,101
Total operating expenses	81,764	75,455
Operating income	7,946	9,298
Nonoperating expenses:		
Interest expense	13,827	14,764
Amortization of deferred financing costs	930	908
Interest income	(129)	(401)
Loss on extinguishment of debt	351	—
Total nonoperating expenses	14,979	15,271
Loss before equity in earnings (losses) of unconsolidated entities, income taxes and discontinued operations	(7,033)	(5,973)
Equity in earnings (losses) of unconsolidated entities	(408)	(242)
Loss before income taxes and discontinued operations	(7,441)	(6,215)
Income tax expense (benefit)	(278)	267
Loss from continuing operations	(7,163)	(6,482)
Income (loss) from discontinued operations	1,988	(34,187)
Net loss	(5,175)	(40,669)
Less: Net income (loss) attributable to the noncontrolling interest	60	(429)
Net loss attributable to Education Realty Trust, Inc.	$(5,235)	$(40,240)
Earnings (loss) per share information:		
Income (loss) attributable to Education Realty Trust, Inc. common stockholders per share — basic and diluted:		
Continuing operations	$(0.10)	$(0.11)
Discontinued operations	0.03	(0.59)
Net loss attributable to Education Realty Trust, Inc. common stockholders per share	$(0.07)	$(0.70)

Weighted average shares of common stock outstanding – basic and diluted	72,040	57,120
Amounts attributable to Education Realty Trust, Inc. – common stockholders:		
Loss from continuing operations, net of tax	$(7,198)	$(6,570)
Income (loss) from discontinued operations, net of tax	1,963	(33,669)
Net loss	$(5,235)	$(40,240)
Distributions per share of common stock	$0.17	$0.15

See accompanying notes to the condensed consolidated financial statements.

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

	Three months ended September 30, 2011	Three months ended September 30, 2010
Revenues:		
Collegiate housing leasing revenue	$25,116	$21,889
Third-party development consulting services	1,132	334
Third-party management services	846	762
Operating expense reimbursements	2,503	7,152
Total revenues	29,597	30,137
Operating expenses:		
Collegiate housing leasing operations	16,137	14,155
Development and management services	1,466	1,251
General and administrative	2,779	2,074
Depreciation and amortization	6,859	6,129
Ground lease expense	1,365	347
Reimbursable operating expenses	2,503	6,236
Total operating expenses	31,109	30,192
Operating loss	(1,512)	(55)
Nonoperating expenses:		
Interest expense	4,443	4,889
Amortization of deferred financing costs	362	284
Interest income	(37)	(174)
Total nonoperating expenses	4,768	4,999
Loss before equity in earnings (losses) of unconsolidated entities, income taxes and discontinued operations	(6,280)	(5,054)
Equity in earnings (losses) of unconsolidated entities	(390)	(328)
Loss before income taxes and discontinued operations	(6,670)	(5,382)
Income tax expense (benefit)	(60)	444
Loss from continuing operations	(6,610)	(5,826)
Income (loss) from discontinued operations	53	(34,622)
Net loss	(6,557)	(40,448)
Less: Net loss attributable to the noncontrolling interest	(91)	(628)
Net loss attributable to Education Realty Trust, Inc.	$(6,466)	$(39,820)
Earnings (loss) per share information:		
Loss attributable to Education Realty Trust, Inc. common stockholders per share — basic and diluted:		
Continuing operations	$(0.09)	$(0.10)
Discontinued operations	—	(0.59)
Net loss attributable to Education Realty Trust, Inc. common stockholders per share	$(0.09)	$(0.69)
Weighted average shares of common stock outstanding – basic and diluted	73,061	57,719

Amounts attributable to Education Realty Trust, Inc. – common stockholders:		
Loss from continuing operations, net of tax	$(6,518)	$(5,723)
Income (loss) from discontinued operations, net of tax	52	(34,097)
Net loss	$(6,466)	$(39,820)
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 Paid-In Capital	Accumulated Deficit	Noncontrolling Interest	Total
	Shares	Amount				
Balance, December 31, 2009	56,705,605	$567	$ 410,455	$ (48,636)	$ 2,779	$365,165
Common stock issued to officers and directors	34,000	—	336	—	—	336
Common stock issued to retire PIUs	50,826	1	196	—	—	197
Proceeds from issuances of common stock, net of offering costs	1,508,628	16	10,229	—	—	10,245
Amortization of restricted stock	48,190	—	474	—	—	474
PIUs forfeited and redeemed	—	—	2,286	—	(2,767)	(481)
Cash dividends	—	—	(8,547)	—	(22)	(8,569)
Net income (loss)	—	—	—	(40,240)	10	(40,230)
Balance, September 30, 2010	58,347,249	$584	$ 415,429	$ (88,876)	$ —	$327,137
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

See accompanying notes to the condensed consolidated financial statements.

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

	Nine months ended September 30, 2011	Nine months ended September 30, 2010
Operating activities:		
Net loss	$(5,175)	$(40,669)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	20,704	17,977
Depreciation included in discontinued operations	450	4,615
Deferred tax benefit	(37)	(667)
Loss on disposal of assets	19	20
Loss on impairment included in discontinued operations	—	33,610
Gain on sale of collegiate housing property	(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	3,157	263
Amortization of deferred financing costs	930	908
Amortization of deferred financing costs included in discontinued operations	2	66
Loss on interest rate cap	5	258
Amortization of unamortized debt premiums	(294)	(298)
Distributions of earnings from unconsolidated entities	498	995
Noncash compensation expense related to stock-based incentive awards	1,153	583
Equity in (earnings) losses of unconsolidated entities	408	242
Change in operating assets and liabilities	5,691	8,094
Net cash provided by operating activities	25,880	25,997
Investing activities:		
Property acquisitions, net of cash acquired	(77,081)	—
Purchase of corporate furniture and fixtures	(78)	(64)
Restricted cash	191	(1,909)
Investment in collegiate housing properties	(19,413)	(14,518)
Proceeds from sale of collegiate housing properties	57,515	—
Payments on notes receivable	75	2,078
Loan to participating development	(8,128)	(7,231)
Earnest money deposits	(575)	—
Investment in assets under development	(32,997)	(446)
Investment in unconsolidated entities	—	(40)
Net cash used in investing activities	(80,491)	(22,130)
Financing activities:		
Payment of mortgage and construction notes	(22,285)	(7,979)
Payment of offering costs	(496)	(148)
Debt issuance costs	(1,154)	6
Borrowing on long-term debt	6,908	—
Debt extinguishment costs	(351)	—
Repayments of line of credit	(3,700)	—

Proceeds from common stock offering	128,786	10,385
Redemption of noncontrolling interests	—	(167)
Dividends and distributions paid to common and restricted stockholders	(12,289)	(8,547)
Dividends and distributions paid to noncontrolling interests	(424)	(626)
Net cash provided by (used in) financing activities	94,995	(7,076)
Net increase (decrease) in cash and cash equivalents	40,384	(3,209)
Cash and cash equivalents, beginning of period	6,958	31,169
Cash and cash equivalents, end of period	$47,342	$27,960

See accompanying notes to the condensed consolidated financial statements.

	Nine months ended September 30, 2011	Nine months ended September 30, 2010
Supplemental disclosure of cash flow information:		
Interest paid	$14,701	$16,438
Income taxes paid	$290	$224

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:

- Allen & O'Hara Education Services, Inc. ("AOES"), a Delaware corporation performing collegiate housing management activities; and

- Allen & O'Hara Development Company, LLC ("AODC"), 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, 2010 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, development and management services expenses had previously been included in general and administrative expenses and ground leases had previously been included in collegiate housing leasing operations expenses. The reclassification of development and management services expenses and ground leases to separate presentation in our statement of 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 September 30, 2011, the Trust had $25.6 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.

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, 2011 and 2010, twelve properties were classified as part of discontinued operations in the accompanying condensed consolidated statements of operations for all periods presented. Five of these properties were sold in the fourth quarter of 2010, and the remaining seven were sold in 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 current use.

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 January 10, 2011, the Trust completed a follow-on offering of 13.2 million shares of its common stock, which includes 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 is using 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 September 30, 2011 and 2010, the Trust had sold 4.1 million and 1.5 million shares of common stock under the equity distribution program for net proceeds of approximately $36.5 million and $10.3 million, respectively. As of September 30, 2011, the Trust had sold common stock equaling the aggregate offering amount of $50 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 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, 2011, the Trust had not sold any shares of common stock under the 2011 equity distribution program.

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, 2011 and 2010, total compensation expense relating to the ESPP was $18,449 and $6,254, 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. REITs are subject to a number of organizational and operational 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 its management company, AOES, as a taxable REIT subsidiary ("TRS"). The TRS is subject to federal, state and local income taxes. AOES manages the Trust's non-REIT activities which include management services and development services, which are provided through AODC. 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, 2011 and 2010. As of September 30, 2011, 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, 2011, open tax years generally included tax years for 2008, 2009 and 2010. The Trust's policy is to include interest and penalties related to unrecognized tax benefits in general and administrative expenses. As of September 30, 2011 and 2010, the Trust had no interest or penalties recorded related to unrecognized tax benefits.

Noncontrolling interests

The units of limited partnership of the Operating Partnership ("Operating Partnership Units"), units of limited partnership of University Towers Operating Partnership, LP ("University Towers Operating Partnership Units") and profits interest units ("PIU") (see Note 9) 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.

The PIUs were determined to be noncontrolling interests that were not redeemable and accordingly these amounts were classified in equity in the accompanying condensed consolidated balance sheets and statements of changes in equity. The PIU holder's share of income or loss was reported in the accompanying condensed consolidated statements of operations as net income attributable to noncontrolling interests. During June 2010, all of the outstanding PIUs were redeemed by the Trust for $0.2 million of cash and 50,826 shares of common stock that had a market value of $0.3 million (see Note 9).

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.

As of September 30, 2011 and 2010, 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 all periods presented, 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, 2011. The carrying value of goodwill was $3.1 million as of September 30, 2011 and December 31, 2010, 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 as of September 30, 2011 and December 31, 2010.

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 typically occurs after construction is complete. For the nine months ended September 30, 2011 and 2010, there was $0.5 million and no 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 will develop and manage the building, which will be 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 will (a) receive development and construction oversight fees and reimbursement of pre-development expenses, (b) invest in the form of an $18.0 million second mortgage, (c) receive a $3.0 million fee for providing a repayment guarantee of the construction first mortgage, and (d) receive a 10-year management contract. As of September 30, 2011 and December 31, 2010, the note receivable for the second mortgage had a balance of $18.0 million and $9.9 million, respectively, and is recorded in notes receivable in the accompanying condensed consolidated balance sheets. 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 September 30, 2011, the Trust would have recognized development services revenue net of costs of $1.3 million, guarantee fee revenue of $3.0 million and interest income of $1.1 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 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 is not expected to have a material impact on the Trust's condensed consolidated financial statements.

In May 2011, the FASB issued new authoritative guidance resulting in common fair value measurement and disclosure requirements in U.S. 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 Trust is currently evaluating the impact of adoption on its consolidated financial statements.

In December 2010, the FASB issued new authoritative guidance on the interpretation of pro forma revenue and earnings disclosure requirements for business combinations. The amendments in the guidance specify that if a public entity presents comparative financial statements, the entity should disclose revenue and earnings of the combined entity as though the business combination(s) that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. The amendments also expand the supplemental pro forma disclosures to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. The guidance is effective for financial statements issued for fiscal years and interim periods beginning after December 15, 2010 and is applied prospectively. The adoption had no material impact on the Trust's condensed consolidated financial statements.

In December 2010, the FASB issued new authoritative guidance which modifies Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. In determining whether it is more likely than not that a goodwill impairment exists, an entity should consider whether there are any adverse qualitative factors indicating that an impairment may exist. The qualitative factors are consistent with the existing guidance, which requires that goodwill of a reporting unit be tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. The guidance is effective for financial statements issued for fiscal years and interim periods beginning after December 15, 2010 and is applied prospectively. The adoption had no impact on the Trust's condensed consolidated financial statements.

3. Investments in unconsolidated entities

As of September 30, 2011, the Trust had investments, directly or indirectly, in the following active unconsolidated joint ventures and limited liability companies that are accounted for under the equity method:

- 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 nine months ended September 30, 2011 and 2010:

	2011	2010
	(In thousands)	
Results of Operations:		
Revenues	$7,974	$10,659
Net loss	(3,777)	(2,856)
Equity in earnings (losses) of unconsolidated entities	$(408)	$(242)

These entities primarily own collegiate housing communities which are managed by the Trust. As of September 30, 2011 and December 31, 2010, the Trust had $36,127 and $0.1 million in investments in unconsolidated entities classified in other assets in the accompanying condensed consolidated balance sheets, respectively. As of September 30, 2011, the Trust had $0.9 million 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 nine months ended September 30, 2011, the Trust purchased the majority of the assets from the WEDR Riverside Investors V, LLC joint venture for $38.1 million (see Note 7). During the nine months ended September 30, 2010, the majority of the assets of the APF EDR, LP and APF EDR Food Services LP joint ventures were sold to an unrelated third party. For the nine months ended September 30, 2011 and 2010, the Trust recognized $0.3 million and $0.1 million, respectively, as its portion of the losses on the investments as part of equity in losses of unconsolidated entities in the condensed consolidated statement of operations and recorded its share of the proceeds from the sales of $0.2 million and $0.7 million, respectively, as distributions 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, 2011, our borrowing base was $115.2 million, we had no amounts outstanding under the Third Amended Revolver, and we had a letter of credit outstanding of $1.5 million (see Note 6); thus, our remaining borrowing base availability was $113.7 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.

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 September 30, 2011, the Trust was in compliance with all covenants discussed above.

The Trust is prohibited from making distributions except to comply with all legal requirements to maintain its status as a REIT.

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, 2011, the Trust had outstanding mortgage and construction indebtedness of $335.8 million (excluding unamortized debt premium of $0.1 million). Of the total, $30.3 million relates to construction debt that is disclosed below and $115.1 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 6.97%. The remaining $190.4 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%. 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 December 31, 2010, the cap had a value of $51,000 and is classified in other assets in the accompanying condensed consolidated balance sheet.

As of September 30, 2011, the Trust had borrowed $6.9 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. 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 can 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 September 30, 2011, the Trust had borrowed $10.4 million and $4.2 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 bear interest equal to LIBOR plus 110 and 200 basis point margins, respectively, and were interest only through June 14, 2010. On June 14, 2010, the Trust paid down $5.0 million of the outstanding construction debt and extended the maturity date until June 28, 2012. 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, 2011, the Trust had $8.8 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.

The scheduled maturities of outstanding mortgage and construction indebtedness at September 30, 2011 are as follows:

Fiscal Year Ending	(In thousands)
2011 (3 months ending December 31, 2011)	$1,042
2012	70,565
2013	36,983
2014	60,270
2015	9,938
Thereafter	156,961
Total	335,759
Unamortized debt premium	105
Outstanding at September 30, 2011, net of unamortized premiums	$335,864

As of September 30, 2011, the outstanding mortgage and construction debt had a weighted average interest rate of 5.55% and carried a weighted average term to maturity of 3.79 years.

5. Segments