

Edgar Filing: Education Realty Trust, Inc. - Form 10-Q

Education Realty Trust, Inc.
Form 10-Q
May 07, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2014

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

(IRS Employer

Incorporation or Organization)

Identification No.)

999 South Shady Grove Road, Suite 600

38120

Memphis, Tennessee

(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 No

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

As of May 5, 2014 the Registrant had 115,020,694 shares of common stock outstanding, \$0.01 par value per share.

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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)

	March 31, 2014	December 31, 2013
Assets:		
Collegiate housing properties, net	\$1,345,860	\$1,388,885
Assets under development	168,182	116,787
Corporate office furniture, net	3,308	3,249
Cash and cash equivalents	8,969	22,073
Restricted cash	29,161	12,253
Student contracts receivable, net	561	807
Receivable from managed third parties	394	361
Notes receivable	18,250	18,125
Goodwill and other intangibles, net	3,639	3,822
Other assets	51,638	44,203
Total assets	\$1,629,962	\$1,610,565
Liabilities:		
Mortgage and construction loans, net of unamortized premium	\$389,735	\$422,681
Unsecured revolving credit facility	219,900	356,900
Unsecured term loan	187,500	—
Accounts payable	6,754	2,289
Accrued expenses	66,446	65,357
Deferred revenue	22,249	23,498
Total liabilities	892,584	870,725
Commitments and contingencies (see Note 6)	—	—
Redeemable noncontrolling interests	10,035	9,871
Equity:		
Common stock, \$0.01 par value per share, 200,000,000 shares authorized, 114,877,873 and 114,740,155 shares issued and outstanding as of March 31, 2014 and December 31, 2013, respectively	1,149	1,148
Preferred shares, \$0.01 par value, 50,000,000 shares authorized, no shares issued and outstanding	—	—
Additional paid-in capital	800,633	813,540
Accumulated deficit	(76,898)	(88,964)
Accumulated other comprehensive loss	(1,363)	—
Total Education Realty Trust, Inc. stockholders' equity	723,521	725,724
Noncontrolling interests	3,822	4,245
Total equity	727,343	729,969
Total liabilities and equity	\$1,629,962	\$1,610,565

See accompanying notes to the condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in thousands, except per share data)

(Unaudited)

	Three months ended March 31, 2014	Three months ended March 31, 2013	
Revenues:			
Collegiate housing leasing revenue	\$50,711	\$39,453	
Third-party development consulting services	802	391	
Third-party management services	1,018	969	
Operating expense reimbursements	2,014	3,858	
Total revenues	54,545	44,671	
Operating expenses:			
Collegiate housing leasing operations	22,168	17,719	
Development and management services	2,341	1,771	
General and administrative	2,118	2,023	
Depreciation and amortization	13,783	10,599	
Ground lease expense	1,899	1,588	
Impairment loss on collegiate housing property	1,910	—	
Reimbursable operating expenses	2,014	3,858	
Total operating expenses	46,233	37,558	
Operating income	8,312	7,113	
Nonoperating expenses:			
Interest expense	5,601	4,054	
Amortization of deferred financing costs	503	420	
Loss on extinguishment of debt	649	—	
Interest income	(70) (119)
Total nonoperating expenses	6,683	4,355	
Income before equity in losses of unconsolidated entities, income taxes, discontinued operations and gain on sale of collegiate housing communities	1,629	2,758	
Equity in losses of unconsolidated entities	(22) (20)
Income before income taxes, discontinued operations and gain on sale of collegiate housing communities	1,607	2,738	
Income tax expense (benefit)	45	(237)
Income from continuing operations	1,562	2,975	
Income from operations of discontinued operations	—	503	
Income before gain on sale of collegiate housing communities	1,562	3,478	
Gain on sale of collegiate housing communities	10,902	—	
Net income	12,464	3,478	
Less: Net income attributable to the noncontrolling interests	398	169	
Net income attributable to Education Realty Trust, Inc.	\$12,066	\$3,309	
Income attributable to Education Realty Trust, Inc. common stockholders per share – basic and diluted:			
	\$0.10	\$0.03	
Discontinued operations	—	—	
	\$0.10	\$0.03	

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Net income attributable to Education Realty Trust, Inc. common stockholders
per share

Distributions per share of common stock	\$0.11	\$0.10
Weighted average common shares outstanding – basic	115,014	113,635
Weighted average common shares outstanding – diluted	116,052	114,673

See accompanying notes to the condensed consolidated financial statements.

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	Three months ended March 31, 2014	Three months ended March 31, 2013
Amounts attributable to Education Realty Trust, Inc. – common stockholders:		
Income from continuing operations, net of noncontrolling interests	\$ 12,066	\$ 2,810
Income from discontinued operations, net of noncontrolling interests	—	499
Net income attributable to Education Realty Trust, Inc.	\$ 12,066	\$ 3,309
Comprehensive income:		
Net income	\$ 12,464	\$ 3,478
Other comprehensive loss:		
Loss on cash flow hedging derivatives	(1,363) —
Comprehensive income	11,101	3,478
Less: comprehensive income attributable to the noncontrolling interests	398	169
Comprehensive income attributable to Education Realty Trust, Inc.	\$ 10,703	\$ 3,309

See accompanying notes to the condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Amounts in thousands, except shares)

(Unaudited)

	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss		Noncontrolling Interests	Total
	Shares	Amount						
Balance, December 31, 2012	113,062,452	\$1,131	\$849,878	\$ (93,287)	\$ —	\$ 5,088	\$762,810	
Proceeds from issuances of common stock, net of offering costs	710,000	8	7,478	—	—	—	7,486	
Amortization of restricted stock	(9,538)	—	80	—	—	—	80	
Cash dividends	—	—	(11,348)	—	—	—	(11,348)	
Contributions from noncontrolling interests	—	—	—	—	—	65	65	
Comprehensive income (loss)	—	—	—	3,309	—	(1)	3,308	
Balance, March 31, 2013	113,762,914	\$1,139	\$846,088	\$ (89,978)	\$ —	\$ 5,152	\$762,401	
Balance, December 31, 2013	114,740,155	\$1,148	\$813,540	\$ (88,964)	\$ —	\$ 4,245	\$729,969	
Common stock offering costs	—	—	(14)	—	—	—	(14)	
Amortization of restricted stock	137,718	1	(241)	—	—	—	(240)	
Cash dividends	—	—	(12,652)	—	—	(525)	(13,177)	
Comprehensive income (loss)	—	—	—	12,066	(1,363)	102	10,805	
Balance, March 31, 2014	114,877,873	\$1,149	\$800,633	\$ (76,898)	\$ (1,363)	\$ 3,822	\$727,343	

See accompanying notes to the condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in thousands)

(Unaudited)

	Three months ended March 31, 2014	Three months ended March 31, 2013
Operating activities:		
Net income	\$12,464	\$3,478
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	13,783	10,599
Depreciation included in discontinued operations	—	529
Loss on disposal of assets	—	12
Gain on sale of collegiate housing communities	(10,902)) —
Noncash rent expense related to the straight-line adjustment for long-term ground leases	1,212	1,093
Impairment loss of collegiate housing properties	1,910	—
Loss on extinguishment of debt	649	—
Amortization of deferred financing costs	503	420
Amortization of unamortized debt premiums	(193)	) (190)
Distributions of earnings from unconsolidated entities	12	37
Noncash compensation expense related to stock-based incentive awards	616	552
Equity in losses of unconsolidated entities	22	20
Change in operating assets and liabilities (net of acquisitions)	(2,893)	) 3,309
Net cash provided by operating activities	17,183	19,859
Investing activities:		
Purchase of corporate furniture and fixtures	(219)	) (106)
Restricted cash	(16,908)	) (621)
Insurance proceeds received on property losses	1,428	10,459
Investment in collegiate housing properties	(2,905)	) (2,072)
Proceeds from sale of collegiate housing properties	40,007	—
Notes receivable	(125)) —
Earnest money deposits	(110)	) (125)
Investment in assets under development	(51,295)	) (62,032)
Investments in unconsolidated entities	(1,919)	) (1,351)
Net cash used in investing activities	(32,046)	) (55,848)
Financing activities:		
Payment of mortgage and construction notes	(36,682)	) (1,180)
Borrowings under mortgage and construction loans	3,929	23,170
Debt issuance costs	(1,540)	) (2,199)
Borrowings under unsecured term loan facility	187,500	—
Debt extinguishment costs	(356)) —
Borrowings on line of credit	64,000	22,633
Repayments of line of credit	(201,000)	) (5,000)
Proceeds from issuance of common stock	—	7,584
Payment of offering costs	(14)) (98)
Return of equity to noncontrolling interests	(542)) —

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Dividends and distributions paid to common and restricted stockholders	(12,652) (11,348)
Dividends and distributions paid to noncontrolling interests	(115	) (104)
Payments of tax withholding related to stock awards	(769) —)
Net cash provided by financing activities	1,759	33,458)
Net decrease in cash and cash equivalents	(13,104	) (2,531)
Cash and cash equivalents, beginning of period	22,073	17,039)
Cash and cash equivalents, end of period	\$8,969	\$14,508)

See accompanying notes to the condensed consolidated financial statements.

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	Three months ended March 31, 2014	Three months ended March 31, 2013
Supplemental disclosure of cash flow information:		
Interest paid	\$6,477	\$5,310
Income taxes paid	\$—	\$150
Supplemental disclosure of noncash activities:		
Stock-based compensation	\$616	\$552
Capital expenditures in accounts payable and accrued expenses related to developments	\$15.525	\$13.785
Change in fair value of derivative instruments	\$1,363	\$—

See accompanying notes to the condensed consolidated financial statements.

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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Organization and description of business

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

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

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

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

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 subsidiaries in which the Trust owns a controlling financial interest. 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, 2013, as filed with the Securities and Exchange Commission (the "SEC") on March 3, 2014, and subsequently amended on April 11, 2014.

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 periods. Actual results could differ from those estimates.

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 and cash equivalents for the purpose of preparing the condensed consolidated

balance sheets and 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 March 31, 2014, the Trust had \$6.2 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 purpose of paying taxes, insurance, principal and interest and funding capital improvements. As of March 31, 2014, restricted cash also includes \$17.7 million in escrow related to the staggered substitution of a secured property under the Master Secured Credit Facility (see Note 4).

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Notes receivable

On August 26, 2013, the Trust provided a \$0.5 million promissory loan to College Park Apartments, Inc. ("CPA"), the Trust's partner in the unconsolidated joint venture University Village-Greensboro LLC (see Note 3), at an interest rate of 10% per annum and a maturity date of August 1, 2020. Under the loan, CPA can make one draw per calendar quarter and has borrowed \$0.3 million as of March 31, 2014. The loan is secured by CPA's interest in the joint venture.

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) will earn a \$3.0 million fee for providing a repayment guarantee of the construction first mortgage and (d) received a 10-year management contract. The construction loan has an initial maturity date of September 16, 2014, with the ability to extend the maturity date to September 16, 2015, provided certain conditions for extension are met. The second mortgage has a maturity date of July 31, 2040. As of March 31, 2014 and December 31, 2013, 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 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 March 31, 2014, the Trust would have recognized development services revenue net of costs of \$2.6 million (including participation in cost savings of \$0.8 million), guarantee fee revenue of \$3.0 million and interest income of \$6.0 million since the commencement of the project.

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 other 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 expense in the accompanying condensed consolidated statements of comprehensive income.

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. During the three months ended March 31, 2014, the Trust recorded a \$1.9 million impairment loss on

a property that was sold during the quarter.

When a collegiate housing community meets 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 were sold or classified as held for sale were recorded as part of discontinued operations. During the three months ended March 31, 2013, five properties were classified as discontinued operations in the accompanying condensed consolidated statements of comprehensive income. All five of these properties were sold by December 31, 2013 (see Note 8). Effective January 1, 2014, the Trust adopted the new guidance related to the presentation of discontinued operations. Prospectively, only dispositions that represent a strategic shift in the Trust's business will qualify for treatment as discontinued operations. The two property dispositions during the three months ended March 31, 2014 did not qualify for treatment as discontinued operations, and as a result, the operations of the properties are included in continuing operations in the accompanying condensed consolidated statements of comprehensive income.

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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 May 22, 2012, the Trust entered into two equity distribution agreements pursuant to which the Trust may issue and sell shares of its common stock having an aggregate offering amount of \$50 million. As of December 31, 2013, the Trust had sold 1.6 million shares of common stock under the distribution agreements for net proceeds of approximately \$17.8 million. The Trust used the net proceeds to repay debt, fund its development pipeline, fund acquisitions and for general corporate purposes. The Trust did not sell any shares under the distribution agreements during the three months ended March 31, 2014.

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 three months ended March 31, 2014, total compensation expense relating to the ESPP was \$10.0 thousand, which is recorded in general and administrative expense in the accompanying condensed consolidated statements of comprehensive income. There was no compensation expense recorded for the three months ended March 31, 2013.

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 either an offset or increase to interest expense using the effective interest method. As of March 31, 2014 and December 31, 2013, the Trust had net unamortized debt premiums of \$2.1 million and \$2.3 million, respectively. These amounts are included in mortgage and construction loans in the accompanying condensed consolidated balance sheets.

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 REIT taxable income for each tax year to its stockholders and meets certain other requirements. If the Trust fails to qualify as a REIT for 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 March 31, 2014 and December 31, 2013. As of March 31, 2014, 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 March 31, 2014, open tax years generally included tax years for 2010, 2011, 2012 and 2013. The Trust's policy is to include interest and penalties related to unrecognized tax benefits in general and administrative expenses. As of March 31, 2014 and December 31, 2013, the Trust had no interest or penalties recorded related to unrecognized tax benefits.

Noncontrolling interests

As of March 31, 2014, the Trust had entered into three joint venture agreements to develop, own and manage properties near Arizona State University - Downtown Phoenix (Roosevelt Point), The University of Mississippi (The Retreat at Oxford) and Duke University (605 West). The Trust is deemed to be the primary beneficiary of these communities; therefore, the Trust accounts for the joint ventures using the consolidation method of accounting. Our joint venture partners' investments in 605 West met the requirements to be classified outside of permanent equity, and is therefore classified as redeemable noncontrolling

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interests in the accompanying condensed consolidated balance sheets and net income attributable to noncontrolling interests in the accompanying condensed consolidated statements of comprehensive income due to the partner's ability to put their ownership interests to the Trust as stipulated in the operating agreements. Our joint venture partners' investments in the Arizona State University - Downtown Phoenix joint venture and The University of Mississippi joint venture 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 comprehensive income. On September 10, 2013, the Trust purchased our joint venture partner's 10% interest in the collegiate housing community referred to as East Edge located near the University of Alabama for \$6.9 million (see Note 7).

The units of limited partnership interest of the Operating Partnership ("Operating Partnership Units") and units of limited partnership interest of University Towers Operating Partnership, LP ("University Towers Operating Partnership Units") are also 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. Income related to such units are recorded as net income attributable to noncontrolling interests in the accompanying condensed consolidated statements of comprehensive income. 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 March 31, 2014, the Trust reported the redeemable noncontrolling interests at historical cost, which was greater than fair value.

The following table sets forth the activity with the redeemable noncontrolling interests for the three months ended March 31, 2014 (in thousands):

Beginning balance – redeemable noncontrolling interests	\$9,871	
Net income attributable to redeemable noncontrolling interests	296	
Distributions attributable to redeemable noncontrolling interests	(132)
Ending balance – redeemable noncontrolling interests	\$10,035	

Earnings per share

Basic earnings per share is calculated by dividing net earnings available to 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 awards that contain nonforfeitable rights to dividends or dividend equivalents are included in the computation of earnings per share under the two-class method. This results in shares of unvested restricted stock being included in the computation of basic earnings per share for all periods presented.

The following table reconciles the basic and diluted weighted average shares for the three months ended March 31, 2014 and 2013:

	2014	2013
Basic weighted average shares of common stock outstanding	115,014,298	113,635,485
Operating Partnership Units	830,343	830,342
University Towers Operating Partnership Units	207,257	207,257
Diluted weighted average shares of common stock outstanding	116,051,898	114,673,084

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 was \$0.4 million. No additional impairment has been recorded through March 31, 2014. The carrying value of goodwill was \$3.1 million as of March 31, 2014 and December 31, 2013, of which \$2.1 million was recorded related to the management services segment and \$0.9 million was recorded related to the development consulting services segment. Goodwill is not subject to

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amortization. Other intangible assets generally include in-place leases 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 \$0.9 million and \$0.8 million as of March 31, 2014 and December 31, 2013, respectively.

Investment in unconsolidated entities

The Trust accounts for its investments in unconsolidated joint ventures using the equity method whereby the costs of an investment are 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 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 (see Note 3).

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 includes net income and other comprehensive loss related to the change in fair value of the interest rate swaps (see Note 10).

Stock-based compensation

On May 4, 2011, the Trust's stockholders approved the Education Realty Trust, Inc. 2011 Omnibus Equity Incentive Plan (the "2011 Plan"). The 2011 Plan replaced the Education Realty Trust, Inc. 2004 Incentive Plan ("2004 Plan") in its entirety. The 2011 Plan is described more fully in Note 9. The Trust recognizes compensation costs related to share-based payments in the accompanying condensed consolidated financial statements in accordance with authoritative guidance.

Derivative instruments and hedging activities

The Trust records all derivative financial instruments on the balance sheet at fair value. Changes in fair value are recognized either in earnings or as other comprehensive income (loss), depending on whether the derivative has been designated as a fair value or cash flow hedge and whether it qualifies as part of a hedging relationship, the nature of the exposure being hedged, and how effective the derivative is at offsetting movements in underlying exposure. The Trust discontinues hedge accounting when it determines that the derivative is no longer effective in offsetting changes in the fair value or cash flows of a hedged item; the derivative expires or is sold, terminated, or exercised; it is no longer probable that the forecasted transaction will occur; or management determines that designating the derivative as a hedging instrument is no longer appropriate. In all situations in which hedge accounting is discontinued and the derivative remains outstanding, the Trust will carry the derivative at its fair value on the balance sheet, recognizing changes in the fair value in current-period earnings. The Trust uses interest rate swaps to effectively convert a portion of its variable rate debt to fixed rate, thus reducing the impact of changes in interest rates on interest payments (see Note 10). These instruments are designated as cash flow hedges and the interest differential to be paid or received is recorded as interest expense.

Recent accounting pronouncements

In April 2014, the FASB issued Accounting Standards Update 2014-08 ("ASU 2014-08"), "Presentation of Financial Statements (Topic 205) and Property, Plant and Equipment (Topic 360) - Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity." ASU 2014-08 changes the threshold for disclosing discontinued operations and the related disclosure requirements. Pursuant to ASU 2014-08, only disposals

representing a strategic shift, such as a major line of business, a major geographical area or a major equity investment, should be presented as a discontinued operation. The guidance will be applied prospectively to new disposals and new classifications of disposal groups as held for sale after the effective date. ASU 2014-08 is effective for annual periods beginning on or after December 15, 2014 with early adoption permitted but only for disposals or classifications as held for sale which have not been reported in financial statements previously issued or available for issuance. The Trust adopted ASU 2014-08 as of January 1, 2014.

In February 2013, the FASB updated the guidance related to Liabilities to provide guidance for the recognition, measurement and disclosure of obligations resulting from joint and several liability arrangements for which the total amount of the obligation within the scope of this guidance is fixed at the reporting date. The updated guidance requires the entity to measure these obligations as the sum of the amount the reporting entity agreed to pay on the basis of its arrangement among its co-obligors and any additional amount the reporting entity expects to pay on behalf of its co-obligors. The updated guidance also requires an entity to disclose the nature and amount of the obligation as well as other information. The guidance is effective for financial

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statements issued for fiscal years and interim periods beginning after December 15, 2013. The adoption did not have a material impact on the Trust's condensed consolidated financial statements.

3. Investments in unconsolidated entities

During the three months ended March 31, 2014, the Trust had investments in the following unconsolidated joint ventures that are accounted for under the equity method:

- 313 5th Street MN Holdings, LLC, a Delaware limited liability company, 50% owned by the Operating Partnership; West Clayton Athens GA Owner, LLC, a Delaware limited liability company, 50% owned by the Operating Partnership;
- Elauwit Networks, a South Carolina limited liability company, 10% owned by the Operating Partnership; and
- University Village-Greensboro LLC, a Delaware limited liability company, 25% owned by the Operating Partnership.

During the three months ended March 31, 2013, the Trust had investments in the following unconsolidated joint ventures that are accounted for under the equity method:

- 313 5th Street MN Holdings, LLC, a Delaware limited liability company, 50% owned by the Operating Partnership;
- Elauwit Networks, a South Carolina limited liability company, 10% owned by the Operating Partnership; and
- University Village-Greensboro LLC, a Delaware limited liability company, 25% owned by the Operating Partnership.

The Trust participates in major operating decisions of, but does not control, these entities; therefore, the equity method is used to account for these investments.

Results of Operations:	2014	2013
For the three months ended March 31, (in thousands)		
Revenues	\$5,012	\$948
Net loss	(1,025	) (79
Trust's equity in losses of unconsolidated entities	\$ (22	) \$ (20

As of March 31, 2014 and December 31, 2013, the Trust had \$23.1 million and \$21.2 million, respectively, of investments in unconsolidated entities classified in other assets in the accompanying condensed consolidated balance sheets. As of March 31, 2014 and December 31, 2013, the Trust had \$1.8 million and \$1.7 million, respectively, in liabilities related to investments in unconsolidated entities where distributions exceeded contributions and equity in earnings and the Trust has historically provided financial support; therefore, these investments are classified in accrued expenses in the accompanying condensed consolidated balance sheets.

4. Debt

Revolving credit facility

On January 14, 2013, the Operating Partnership entered into a Fourth Amended and Restated Credit Agreement and, on October 24, 2013, entered into the First Amendment to the agreement which increased the maximum facility from \$375.0 million to \$500.0 million (as amended, the "Fourth Amended Revolver"). The Fourth Amended Revolver also has an accordion feature to \$700.0 million, which may be exercised during the first four years subject to satisfaction of certain conditions. The initial maturity date of the Fourth Amended Revolver is January 14, 2018, provided that the Operating Partnership may extend the maturity date for one year subject to certain conditions.

Availability under the Fourth 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 March 31, 2014, the borrowing base availability was \$343.1 million, and the Operating Partnership had \$219.9 million outstanding under the Fourth Amended Revolver; thus, the remaining borrowing base availability was \$123.2 million.

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

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March 31, 2014, the interest rate applicable to the Fourth Amended Revolver was 1.56%. If amounts are drawn, due to the fact that the Fourth Amended Revolver bears interest at variable rates, cost approximates the fair value.

The Fourth 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 March 31, 2014, the Trust was in compliance with all covenants of the Fourth Amended Revolver.

Unsecured term loan facility

On January 13, 2014, the Operating Partnership and certain of its subsidiaries (together with the Operating Partnership, the "Borrowers"), each of which is an indirectly owned subsidiary of the Trust, entered into a credit agreement (the "Credit Agreement"), which provides for unsecured term loans in the initial aggregate principal amount of \$187.5 million, consisting of a \$122.5 million Tranche A term loan with a seven-year maturity (the "Tranche A Term Loan") and a \$65.0 million Tranche B term loan with a five-year maturity (the "Tranche B Term Loan" and, together with the Tranche A Term Loan, the "Term Loans"). The Tranche B Term Loan matures on January 13, 2021 and the Tranche A Term Loan matures on January 13, 2019. The Credit Agreement contains an accordion feature pursuant to which the Borrowers may request that the total aggregate amount of the Term Loans be increased to \$250.0 million, which may be allocated to Tranche A or Tranche B, subject to certain conditions, including obtaining commitments from any one or more lenders to provide such additional commitments. The Trust used proceeds from the Term Loan to repay a portion of the outstanding balance under the Fourth Amended Revolver.

The interest rate per annum on the Tranche A Term Loan is, at the Borrowers' option, equal to a base rate or LIBOR plus an applicable margin ranging from 155 to 225 basis points. The interest rate per annum on the Tranche B Term Loan is, at the Borrowers' option, equal to a base rate or LIBOR plus an applicable margin ranging from 120 to 190 basis points. The applicable margin for the Term Loans is based on leverage.

The Credit Agreement contains customary affirmative and restrictive covenants substantially similar to those contained in the Trust's Fourth Amended Revolver. The Trust serves as the guarantor for any funds borrowed by the Borrowers under the Credit Agreement. As of March 31, 2014, the Trust was in compliance with all covenants of the Credit Agreement.

In connection with entering into the Credit Agreement, the Trust entered into multiple interest rate swaps with notional amounts totaling \$187.5 million to hedge the interest payments on the LIBOR-based Term Loans (see Note 10). As of March 31, 2014, the effective interest rate on the Tranche A Term Loan was 3.95% (weighted average swap rate of 2.30% plus the current margin of 1.65%) and the effective interest rate on the Tranche B Term Loan was 2.96% (weighted average swap rate of 1.66% plus the current margin of 1.30%).

Mortgage and construction debt

Master Secured Credit Facility

The Trust has a credit facility with Fannie Mae (the "Master Secured Credit Facility") that was entered into on December 31, 2008 and expanded on December 2, 2009. All notes under the Master Secured Credit Facility contain cross-default provisions, and all properties securing the notes are cross-collateralized. 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 March 31, 2014. As of March 31, 2014 and December 31, 2013, the Trust had \$169.0 million and \$169.7 million, respectively, of mortgage loans outstanding under the Master Secured Credit Facility bearing interest at a weighted average fixed interest rate of 5.87%.

Mortgage debt

As of March 31, 2014, the Trust had outstanding mortgage indebtedness of \$91.0 million (excluding an unamortized debt premium of \$2.1 million). Of the total mortgage debt outstanding at March 31, 2014, \$57.0 million relates to mortgage debt bearing interest at fixed rates ranging from 4.2% to 5.6% and \$34.0 million relates to mortgage debt bearing interest at variable rates at a weighted average interest rate of 2.29%. The mortgage debt outstanding is secured by underlying collegiate housing properties.

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During the three months ended March 31, 2014, the Trust repaid in full variable rate mortgage debt of \$35.7 million that was assumed in connection with the 2011 acquisition of the GrandMarc at Westberry Place collegiate housing community located at Texas Christian University. The interest rate was 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 was scheduled to mature on January 1, 2020.

Construction loans

As of March 31, 2014, the Trust had construction loans outstanding of \$95.2 million related to the following collegiate housing developments: The Oaks on the Square (Phase I & II and Phase III) serving the University of Connecticut, The Retreat serving the University of Mississippi, and Roosevelt Point serving Arizona State University - Downtown Phoenix Campus. Interest on these construction loans is at variable rates at a weighted average interest rate of 2.28%.

In connection with the acquisition of The Varsity serving the University of Michigan during the year ended December 31, 2013, the Trust assumed a construction loan in the amount of \$32.4 million. The interest rate per year applicable to the loan is equal to LIBOR plus a 2.25% margin and is interest only through August 1, 2015. As of March 31, 2014, the interest rate applicable to the loan was 2.40%. On August 1, 2015, if certain conditions for extension are met, the Trust has the the option to extend the loan until August 1, 2017. During the extension period, if applicable, principal and interest are to be repaid on a monthly basis.

The scheduled maturities of outstanding mortgage and construction indebtedness as of March 31, 2014 are as follows (in thousands):

Fiscal Year Ending December 31,	
2014	\$12,214
2015	135,769
2016	124,667
2017	42,095
2018	1,629
Thereafter	71,263
Total	387,637
Debt premium	2,098
Outstanding as of March 31, 2014, net of debt premium	\$389,735

As of March 31, 2014, the outstanding mortgage and construction debt had a weighted average interest rate of 4.24% and carried a weighted average term of 2.38 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, gains (losses) on sale of collegiate housing properties, income taxes, equity in earnings of unconsolidated entities, noncontrolling interests and discontinued operations. The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies. Intercompany fees are reflected at the contractually stipulated amounts. The following tables represent the Trust's segment information for the three months ended March 31, 2014 and 2013 (amounts in thousands):

Three Months Ended March 31,	
2014	2013

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Collegiate Housing Leasing:

Collegiate housing leasing revenue	\$50,711	\$39,453
Student housing leasing operating expenses	22,168	17,719
Net operating income	\$28,543	\$21,734
Total segment assets at end of period ⁽¹⁾	\$1,543,850	\$1,292,499

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	Three Months Ended March 31,	
	2014	2013
Development Consulting Services:		
Third-party development consulting services revenue	\$802	\$391
General and administrative expenses	666	414
Net operating income (loss)	\$136	\$(23)
Total segment assets at end of period	\$6,055	\$6,004
Management Services:		
Third-party management services revenue	\$1,018	\$969
General and administrative expenses	667	644
Net operating income	\$351	\$325
Total segment assets at end of period	\$10,660	\$10,978
Reconciliations:		
Segment revenue	\$52,531	\$40,813
Operating expense reimbursements	2,014	3,858
Total segment revenues	\$54,545	\$44,671
Segment operating expenses	\$23,501	\$18,777
Reimbursable operating expenses	2,014	3,858
Total segment operating expenses	\$25,515	\$22,635
Segment net operating income	\$29,030	\$22,036
Other unallocated general and administrative expenses	(3,126)	(2,736)
Depreciation and amortization	(13,783)	(10,599)
Ground lease	(1,899)	(1,588)
Impairment loss of collegiate housing property	(1,910)	—
Nonoperating expenses	(6,683)	(4,355)
Equity in losses of unconsolidated entities	(22)	(20)
Income before income taxes, discontinued operations and gain on sale of collegiate housing communities	\$1,607	\$2,738
Total segment assets, end of period ⁽²⁾	\$1,560,565	\$1,309,481
Unallocated corporate amounts:		