

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

Education Realty Trust, Inc.
Form 10-Q

October 31, 2016

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, 2016

or

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

For the transition period from to

Commission file number 001-32417

Education Realty Trust, Inc.

Education Realty Operating Partnership, LP

(Exact Name of Registrant as Specified in Its Charter)

Maryland 20-1352180

Delaware 20-1352332

(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.

Education Realty Trust, Inc. Yes x No o

Education Realty Operating Partnership, LP Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Education Realty Trust, Inc. Yes x No o

Education Realty Operating Partnership, LP Yes x No o

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

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Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

Education Realty Operating Partnership, LP
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).

Education Realty Trust, Inc. Yes No
Education Realty Operating Partnership, LP Yes No

As of October 28, 2016, Education Realty Trust, Inc. had 73,075,461 shares of common stock outstanding.

EXPLANATORY NOTE

This report combines the reports on Form 10-Q for the quarterly period ended September 30, 2016 of Education Realty Trust, Inc. and Education Realty Operating Partnership, LP. Unless stated otherwise or the context otherwise requires, references to “EdR” mean only Education Realty Trust, Inc., a Maryland corporation, and references to “EROP” mean only Education Realty Operating Partnership, LP, a Delaware limited partnership. References to the “Trust,” “we,” “us,” or “our” mean collectively EdR, EROP and those entities/subsidiaries owned or controlled by EdR and/or EROP. References to the “Operating Partnership” mean collectively EROP and those entities/subsidiaries owned or controlled by EROP. The following chart illustrates our corporate structure:

The general partner of EROP is Education Realty OP GP, Inc. (the “OP GP”), an entity that is indirectly wholly-owned by EdR. As of September 30, 2016, OP GP held an ownership interest in EROP of less than 1%. The limited partners of EROP are Education Realty OP Limited Partner Trust, a wholly-owned subsidiary of EdR, and other limited partners consisting of former members of management. The OP GP, as the sole general partner of EROP, has the responsibility and discretion in the management and control of the Operating Partnership, and the limited partners of EROP, in such capacity, have no authority to transact business for, or participate in the management activities of the Operating Partnership. Management operates EdR and the Operating Partnership as one business. The management of EdR consists of the same members as the management of the Operating Partnership.

The Trust is structured as an umbrella partnership real estate investment trust (“UPREIT”) and EdR contributes all net proceeds from its various equity offerings to the Operating Partnership. In return for those contributions, EdR receives an equal number of partnership units of EROP (the “OP Units”). Contributions of properties to the Trust can be structured as tax-deferred transactions through the issuance of OP Units. Holders of OP Units may tender their OP Units for redemption by the Operating Partnership in exchange for cash equal to the market price of EdR's common stock at the time of redemption or, at EdR's option, for shares of EdR's common stock. Pursuant to the partnership agreement of EROP, the number of shares to be issued upon the redemption of OP Units is equal to the number of OP Units being redeemed. Additionally, for every one share of common stock offered and sold by EdR for cash, EdR must contribute the net proceeds to EROP and, in return, EROP will issue one OP Unit to EdR.

The Trust believes that combining the quarterly reports on Form 10-Q of EdR and the Operating Partnership into this single report provides the following benefits:

- enhances investors’ understanding of the Trust by enabling investors to view the business of EdR and the Operating Partnership as a whole in the same manner as management views and operates the business;
 - eliminates duplicative disclosure and provides a more streamlined and readable presentation since a substantial portion of the disclosure applies to both EdR and the Operating Partnership; and
-

•creates time and cost efficiencies through the preparation of one combined report instead of two separate reports.

EdR consolidates the Operating Partnership for financial reporting purposes, and EdR essentially has no assets or liabilities other than its investment in the Operating Partnership. Therefore, the assets and liabilities of EdR and the Operating Partnership are the same on their respective financial statements. However, the Trust believes it is important to understand the few differences between EdR and the Operating Partnership in the context of how the entities operate as a consolidated company. All of the Trust's property ownership, development and related business operations are conducted through the Operating Partnership. EdR also issues public equity from time to time and guarantees certain debt of EROP. EdR does not have any indebtedness, as all debt is incurred by the Operating Partnership. The Operating Partnership holds all of the assets of the Trust, including the Trust's ownership interests in its joint ventures. The Operating Partnership conducts the operations of the business and is structured as a partnership with no publicly traded equity. Except for the net proceeds from EdR's equity offerings, which are contributed to the capital of EROP in exchange for OP Units on the basis of one share of common stock for one OP Unit, the Operating Partnership generates all remaining capital required by the Trust's business, including as a result of the incurrence of indebtedness. These sources include, but are not limited to, the Operating Partnership's working capital, net cash provided by operating activities, borrowings under its credit facilities, proceeds from mortgage indebtedness and debt issuances, and proceeds received from the disposition of certain properties. Noncontrolling interests, stockholders' equity, and partners' capital are the main areas of difference between the condensed consolidated financial statements of the Trust and those of the Operating Partnership. The noncontrolling interests in the Operating Partnership's financial statements consist of the interests of unaffiliated partners in various consolidated joint ventures. The noncontrolling interests in the Trust's financial statements include the same noncontrolling interests at the Operating Partnership level. The differences between stockholders' equity and partners' capital result from differences in the type of equity issued by EdR and the Operating Partnership.

To help investors understand the significant differences between the Trust and the Operating Partnership, this report provides separate condensed consolidated financial statements for the Trust and the Operating Partnership. A single set of consolidated notes to such financial statements is presented that includes separate discussions for the Trust and the Operating Partnership when applicable (for example, noncontrolling interests, stockholders' equity or partners' capital, earnings per share or unit, etc.). A combined Management's Discussion and Analysis of Financial Condition and Results of Operations section is also included that presents discrete information related to each entity, as applicable.

In order to highlight the differences between the Trust and the Operating Partnership, the separate sections in this report for the Trust and the Operating Partnership specifically refer to the Trust and the Operating Partnership. In the sections that combine disclosure of the Trust and the Operating Partnership, this report refers to actions or holdings as being actions or holdings of the Trust. Although the Operating Partnership is generally the entity that directly or indirectly enters into contracts and joint ventures and holds assets and debt, reference to the Trust is appropriate because the Trust operates its business through the Operating Partnership. The separate discussions of the Trust and the Operating Partnership in this report should be read in conjunction with each other to understand the results of the Trust on a consolidated basis and how management operates the Trust.

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Education Realty Trust, Inc.
Education Realty Operating Partnership, LP
Form 10-Q
For the Quarter Ended September 30, 2016
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PART I - Financial Information

Item 1. Financial Statements.

EDUCATION REALTY TRUST, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

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

(Unaudited)

	September 30, 2016	December 31, 2015
Assets:		
Collegiate housing properties, net	\$ 2,125,140	\$ 1,774,796
Assets under development	162,336	117,384
Cash and cash equivalents	115,486	33,742
Restricted cash	7,492	9,784
Other assets	72,870	66,125
Total assets	\$ 2,483,324	\$ 2,001,831
Liabilities:		
Mortgage and construction loans, net of unamortized premium and deferred financing costs	\$ 61,847	\$ 204,511
Unsecured revolving credit facility	—	—
Unsecured term loan, net of unamortized deferred financing costs	186,706	186,518
Unsecured senior notes, net of unamortized deferred financing costs	247,873	247,678
Accounts payable and accrued expenses	125,421	85,670
Deferred revenue	30,981	19,024
Total liabilities	652,828	743,401
Commitments and contingencies (see Note 7)	—	—
Redeemable noncontrolling interests	11,033	13,560
Equity:		
Common stock, \$0.01 par value per share, 200,000,000 shares authorized, 73,047,395 and 56,879,003 shares issued and outstanding as of September 30, 2016 and December 31, 2015, respectively	730	569
Preferred shares, \$0.01 par value per share, 50,000,000 shares authorized, no shares issued and outstanding	—	—
Additional paid-in capital	1,813,980	1,263,603
Retained earnings (accumulated deficit)	—	(21,998)
Accumulated other comprehensive loss	(8,312)	(5,475)
Total Education Realty Trust, Inc. stockholders' equity	1,806,398	1,236,699
Noncontrolling interests	13,065	8,171
Total equity	1,819,463	1,244,870
Total liabilities and equity	\$ 2,483,324	\$ 2,001,831

See accompanying notes to the condensed consolidated financial statements.

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EDUCATION REALTY TRUST, INC. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF INCOME (LOSS) AND COMPREHENSIVE INCOME
 (LOSS)

(Amounts in thousands, except per share data)

(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Revenues:				
Collegiate housing leasing revenue	\$61,877	\$54,725	\$193,750	\$168,842
Third-party development consulting services	778	490	1,728	1,531
Third-party management services	965	865	2,556	2,698
Operating expense reimbursements	2,605	2,109	6,710	6,571
Total revenues	66,225	58,189	204,744	179,642
Operating expenses:				