

Education Realty Trust, Inc.

Form 10-Q

November 13, 2006

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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 September 30, 2006**

**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**

(State or other jurisdiction of incorporation or  
organization)

**20-1352180**

(I.R.S. Employer Identification No.)

**530 Oak Court Drive, Suite 300, Memphis, Tennessee**

(Address of principal executive offices)

**38117**

(Zip Code)

**(Registrant's telephone number, including area code): (901)259-2500**

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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐

Accelerated filer ☐

Non-accelerated filer ☒

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

As of November 13, 2006, the latest practicable date, the Registrant had outstanding 26,570,139 shares of common stock, \$.01 par value per share.

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FORM 10-Q  
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CONDENSED CONSOLIDATED BALANCE SHEETS**

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

|                                                                                                                                                                                          | <b>September 30,<br/>2006<br/>(Unaudited)</b> | <b>December 31,<br/>2005</b> |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------|------------------------------|
| <b>Assets</b>                                                                                                                                                                            |                                               |                              |
| Student housing properties, net                                                                                                                                                          | \$ 812,075                                    | \$ 620,305                   |
| Corporate office furniture, net                                                                                                                                                          | 814                                           | 991                          |
| Cash and cash equivalents                                                                                                                                                                | 3,900                                         | 61,662                       |
| Restricted cash                                                                                                                                                                          | 11,707                                        | 6,738                        |
| Student contracts receivable, net                                                                                                                                                        | 245                                           | 470                          |
| Receivable from affiliate                                                                                                                                                                | 260                                           |                              |
| Management fee receivable from third party                                                                                                                                               | 720                                           | 552                          |
| Goodwill and other intangibles, net                                                                                                                                                      | 3,693                                         | 3,546                        |
| Other assets                                                                                                                                                                             | 8,556                                         | 9,785                        |
| <br>Total assets                                                                                                                                                                         | <br>\$ 841,970                                | <br>\$ 704,049               |
| <b>Liabilities and stockholders' equity</b>                                                                                                                                              |                                               |                              |
| <b>Liabilities:</b>                                                                                                                                                                      |                                               |                              |
| Mortgage loans, net of unamortized premium/discount                                                                                                                                      | \$ 425,180                                    | \$ 328,335                   |
| Other long term debt                                                                                                                                                                     | 50,000                                        |                              |
| Line of credit and other short term debt                                                                                                                                                 | 20,800                                        |                              |
| Accounts payable and accrued expenses                                                                                                                                                    | 12,987                                        | 9,370                        |
| Accounts payable affiliate                                                                                                                                                               |                                               | 225                          |
| Deferred revenue                                                                                                                                                                         | 10,453                                        | 7,660                        |
| <br>Total liabilities                                                                                                                                                                    | <br>519,420                                   | <br>345,590                  |
| <br>Minority interest                                                                                                                                                                    | <br>19,367                                    | <br>27,926                   |
| <br>Commitments and contingencies                                                                                                                                                        |                                               |                              |
| <b>Stockholders' equity:</b>                                                                                                                                                             |                                               |                              |
| Common stock, \$.01 par value, 200,000,000 shares authorized,<br>26,395,939 and 26,263,889 shares issued and outstanding as of<br>September 30, 2006 and December 31, 2005, respectively | <br><br><br>264                               | <br><br><br>263              |
| Preferred shares, \$.01 par value, 50,000,000 shares authorized, no<br>shares issued and outstanding                                                                                     |                                               |                              |
| Additional paid-in capital                                                                                                                                                               | 329,800                                       | 351,664                      |
| Loan to unitholder                                                                                                                                                                       |                                               | (5,996)                      |
| Warrants                                                                                                                                                                                 | 375                                           | 375                          |
| Accumulated deficit                                                                                                                                                                      | (27,256)                                      | (15,773)                     |
| <br>Total stockholders' equity                                                                                                                                                           | <br>303,183                                   | <br>330,533                  |

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|                                            |    |         |    |         |
|--------------------------------------------|----|---------|----|---------|
| Total liabilities and stockholders' equity | \$ | 841,970 | \$ | 704,049 |
|--------------------------------------------|----|---------|----|---------|

*See accompanying notes to the condensed consolidated and combined financial statements*

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**EDUCATION REALTY TRUST, INC. AND  
SUBSIDIARIES AND EDUCATION REALTY TRUST PREDECESSOR  
CONDENSED CONSOLIDATED AND COMBINED STATEMENTS OF OPERATIONS**

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

|                                                                                               | <b>Education Realty Trust, Inc.<br/>Consolidated</b>                            |                                                                         | <b>EDR<br/>Predecessor<br/>Combined</b>               |
|-----------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------|-------------------------------------------------------------------------|-------------------------------------------------------|
|                                                                                               | <b>Nine<br/>months<br/>ended<br/>September<br/>30,<br/>2006<br/>(Unaudited)</b> | <b>Nine months<br/>ended<br/>September 30,<br/>2005<br/>(Unaudited)</b> | <b>January 1<br/>through<br/>January 30,<br/>2005</b> |
| <b>Revenues:</b>                                                                              |                                                                                 |                                                                         |                                                       |
| Student housing leasing revenue                                                               | \$ 63,421                                                                       | \$ 51,329                                                               | \$ 1,503                                              |
| Student housing food service revenue                                                          | 2,670                                                                           | 2,334                                                                   | 269                                                   |
| Other leasing revenue                                                                         | 10,577                                                                          |                                                                         |                                                       |
| Third-party development services                                                              | 2,283                                                                           | 973                                                                     |                                                       |
| Third-party management services                                                               | 2,051                                                                           | 1,155                                                                   | 103                                                   |
| Operating expense reimbursements                                                              | 5,891                                                                           | 3,538                                                                   | 671                                                   |
| Total revenues                                                                                | 86,893                                                                          | 59,329                                                                  | 2,546                                                 |
| <b>Operating expenses:</b>                                                                    |                                                                                 |                                                                         |                                                       |
| Student housing leasing operations                                                            | 32,159                                                                          | 26,782                                                                  | 524                                                   |
| Student housing food service operations                                                       | 2,427                                                                           | 2,194                                                                   | 255                                                   |
| General and administrative                                                                    | 9,037                                                                           | 10,138                                                                  | 367                                                   |
| Depreciation and amortization                                                                 | 27,445                                                                          | 23,387                                                                  | 260                                                   |
| Reimbursable operating expenses                                                               | 5,891                                                                           | 3,538                                                                   | 671                                                   |
| Total operating expenses                                                                      | 76,959                                                                          | 66,039                                                                  | 2,077                                                 |
| Operating income (loss)                                                                       | 9,934                                                                           | (6,710)                                                                 | 469                                                   |
| <b>Nonoperating expenses:</b>                                                                 |                                                                                 |                                                                         |                                                       |
| Interest expense                                                                              | 21,682                                                                          | 11,587                                                                  | 479                                                   |
| Exit fees on early repayment of mortgages                                                     |                                                                                 | 1,084                                                                   |                                                       |
| Amortization of deferred financing costs                                                      | 834                                                                             | 582                                                                     |                                                       |
| Interest income                                                                               | (439)                                                                           | (630)                                                                   |                                                       |
| Total nonoperating expenses                                                                   | 22,077                                                                          | 12,623                                                                  | 479                                                   |
| Loss before equity in earnings of unconsolidated entities, income taxes and minority interest | (12,143)                                                                        | (19,333)                                                                | (10)                                                  |
| Equity in earnings of unconsolidated entities                                                 | 573                                                                             | 560                                                                     | 27                                                    |
|                                                                                               | (11,570)                                                                        | (18,773)                                                                | 17                                                    |

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|                                                               |             |             |    |    |
|---------------------------------------------------------------|-------------|-------------|----|----|
| Income (loss) before income taxes and minority interest       |             |             |    |    |
| Income tax expense                                            | 463         | 170         |    |    |
| Net income (loss) before minority interest                    | (12,033)    | (18,943)    |    | 17 |
| Minority interest                                             | (550)       | (1,384)     |    |    |
| Net income (loss)                                             | \$ (11,483) | \$ (17,559) | \$ | 17 |
| <b>Earnings per share information:</b>                        |             |             |    |    |
| Loss per share basic and diluted                              | \$ (0.44)   | \$ (0.80)   |    |    |
| Weighted average common shares outstanding- basic and diluted | 26,336,343  | 21,883,589  |    |    |
| Distributions per common share                                | \$ .8925    | \$ .4875    |    |    |

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

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**EDUCATION REALTY TRUST, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

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

Unaudited

|                                                                                               | <b>Three months<br/>ended<br/>September 30,<br/>2006</b> | <b>Three months<br/>ended<br/>September 30,<br/>2005</b> |
|-----------------------------------------------------------------------------------------------|----------------------------------------------------------|----------------------------------------------------------|
| <b>Revenues:</b>                                                                              |                                                          |                                                          |
| Student housing leasing revenue                                                               | \$ 19,520                                                | \$ 20,145                                                |
| Student housing food service revenue                                                          | 895                                                      | 893                                                      |
| Other leasing revenue                                                                         | 3,709                                                    |                                                          |
| Third-party development services                                                              | 856                                                      | 791                                                      |
| Third-party management services                                                               | 653                                                      | 511                                                      |
| Operating expense reimbursements                                                              | 2,146                                                    | 1,474                                                    |
| Total revenues                                                                                | 27,779                                                   | 23,814                                                   |
| <b>Operating expenses:</b>                                                                    |                                                          |                                                          |
| Student housing leasing operations                                                            | 13,422                                                   | 13,570                                                   |
| Student housing food service operations                                                       | 844                                                      | 878                                                      |
| General and administrative                                                                    | 2,872                                                    | 2,561                                                    |
| Depreciation and amortization                                                                 | 9,205                                                    | 8,236                                                    |
| Reimbursable operating expenses                                                               | 2,146                                                    | 1,474                                                    |
| Total operating expenses                                                                      | 28,489                                                   | 26,719                                                   |
| Operating loss                                                                                | (710)                                                    | (2,905)                                                  |
| <b>Nonoperating expenses:</b>                                                                 |                                                          |                                                          |
| Interest expense                                                                              | 7,551                                                    | 4,782                                                    |
| Amortization of deferred financing costs                                                      | 281                                                      | 252                                                      |
| Interest income                                                                               | (101)                                                    | (146)                                                    |
| Total nonoperating expenses                                                                   | 7,731                                                    | 4,888                                                    |
| Loss before equity in earnings of unconsolidated entities, income taxes and minority interest | (8,441)                                                  | (7,793)                                                  |
| Equity in earnings of unconsolidated entities                                                 | 148                                                      | 332                                                      |
| Loss before income taxes and minority interest                                                | (8,293)                                                  | (7,461)                                                  |
| Income tax expense                                                                            | 381                                                      | 340                                                      |
| Net loss before minority interest                                                             | (8,674)                                                  | (7,801)                                                  |
| Minority interest                                                                             | (485)                                                    | (617)                                                    |
| Net loss                                                                                      | \$ (8,189)                                               | \$ (7,184)                                               |

**Earnings per share information:**

|                                                               |    |            |    |            |
|---------------------------------------------------------------|----|------------|----|------------|
| Loss per share    basic and diluted                           | \$ | (0.31)     | \$ | (0.33)     |
| Weighted average common shares outstanding- basic and diluted |    | 26,390,417 |    | 21,923,244 |
| Distributions per common share                                | \$ | .2975      | \$ | .2975      |

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

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**EDUCATION REALTY TRUST, INC. AND  
SUBSIDIARIES AND EDUCATION REALTY TRUST PREDECESSOR  
CONDENSED CONSOLIDATED AND COMBINED STATEMENTS OF CASH FLOWS**

(Amounts in thousands)

|                                                                                             | <b>Education Realty Trust,<br/>Inc.<br/>Consolidated</b>                        | <b>EDR<br/>Predecessor<br/>Combined</b>                                         |
|---------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------|---------------------------------------------------------------------------------|
|                                                                                             | <b>Nine<br/>months<br/>ended<br/>September<br/>30,<br/>2006<br/>(Unaudited)</b> | <b>Nine<br/>months<br/>ended<br/>September<br/>30,<br/>2005<br/>(Unaudited)</b> |
|                                                                                             |                                                                                 | <b>January 1<br/>through<br/>January 30,<br/>2005</b>                           |
| <b>Operating activities:</b>                                                                |                                                                                 |                                                                                 |
| Net income (loss)                                                                           | \$ (11,483)                                                                     | \$ (17,559)                                                                     |
| Adjustments to reconcile net income (loss) to net cash<br>provided by operating activities: |                                                                                 | \$ 17                                                                           |
| Depreciation and amortization                                                               | 27,445                                                                          | 23,387                                                                          |
| Deferred tax expense                                                                        | 249                                                                             | 246                                                                             |
| (Gain) loss on disposal of assets                                                           | (10)                                                                            | 424                                                                             |
| Amortization of deferred financing costs                                                    | 834                                                                             | 582                                                                             |
| Amortization of unamortized debt premiums/discounts                                         | (413)                                                                           | (213)                                                                           |
| Distributions from unconsolidated entities                                                  | 658                                                                             | 740                                                                             |
| Noncash compensation expense related to PIUs and<br>restricted stock                        | 622                                                                             | 4,631                                                                           |
| Equity in earnings of unconsolidated entities                                               | (573)                                                                           | (560)                                                                           |
| Minority interest                                                                           | (550)                                                                           | (1,384)                                                                         |
| Change in operating assets and liabilities (net of<br>acquisitions)                         | 3,001                                                                           | 4,951                                                                           |
| Net cash provided by operating activities                                                   | 19,780                                                                          | 14,999                                                                          |
| <b>Investing activities:</b>                                                                |                                                                                 |                                                                                 |
| Property acquisitions, net of cash acquired                                                 | (112,694)                                                                       | (187,360)                                                                       |
| Deferred acquisition costs and earnest money deposits                                       | (468)                                                                           | (4,283)                                                                         |
| Purchase of corporate furniture and fixtures                                                | (63)                                                                            | (1,058)                                                                         |
| Restricted cash                                                                             | (2,593)                                                                         | (3,073)                                                                         |
| Insurance proceeds on property loss                                                         | 184                                                                             | 175                                                                             |
| Investment in student housing properties                                                    | (3,669)                                                                         | (4,077)                                                                         |
| Investment in joint ventures                                                                | (1,021)                                                                         | (2,348)                                                                         |
| Net cash used in investing activities                                                       | (120,324)                                                                       | (199,676)                                                                       |
| <b>Financing activities:</b>                                                                |                                                                                 |                                                                                 |
| Payment of mortgage notes                                                                   | (1,402)                                                                         | (115,419)                                                                       |
| Borrowings of other long-term debt                                                          | 50,000                                                                          | (98)                                                                            |
| Debt issuance costs                                                                         | (1,350)                                                                         | (3,155)                                                                         |

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|                                                               |           |           |         |
|---------------------------------------------------------------|-----------|-----------|---------|
| Borrowing/repayment of line of credit, net                    | 20,800    | 1,498     |         |
| Loan to unitholder                                            |           | (5,996)   |         |
| Proceeds from offering                                        |           | 419,600   |         |
| Payment of offering costs                                     | (125)     | (26,963)  |         |
| Dividends and distributions paid                              | (25,133)  | (11,721)  |         |
| Repayment of notes payable affiliate                          |           | (485)     |         |
| Redemption of minority interest                               | (8)       |           |         |
| Net cash provided by (used in) financing activities           | 42,782    | 257,359   | (98)    |
| Net increase (decrease) in cash and cash equivalents          | (57,762)  | 72,682    | (2,313) |
| Cash and cash equivalents, beginning of period                | 61,662    | 1         | 2,883   |
| Cash and cash equivalents, end of period                      | \$ 3,900  | \$ 72,683 | \$ 570  |
| <b>Supplemental disclosure of cash flow information:</b>      |           |           |         |
| Interest paid                                                 | \$ 21,501 | \$ 11,726 | \$ 471  |
| Income taxes paid                                             | \$ 855    | \$ 133    | \$      |
| <b>Supplemental disclosure of noncash activities:</b>         |           |           |         |
| Prepaid offering costs charged against equity                 | \$        | \$ 2,218  | \$      |
| Prepaid acquisition costs                                     | 4,718     |           |         |
| Units issued in connection with acquisitions                  |           | 26,340    |         |
| Warrants issued                                               |           | 375       |         |
| Debt assumed in property acquisitions net of premium          |           | 444,955   |         |
| Redemption of minority interest to satisfy loan to unitholder | 6,116     |           |         |

*See accompanying notes to the condensed consolidated and combined financial statements*

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**EDUCATION REALTY TRUST, INC. AND SUBSIDIARIES AND  
EDUCATION REALTY TRUST PREDECESSOR  
NOTES TO CONDENSED CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS**

(Amounts in thousands, except share and per share data)  
(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 was formed to succeed to the business of a group of entities collectively referred to herein as the Education Realty Trust Predecessor (the EDR Predecessor ). The EDR Predecessor was not a legal entity, but rather a combination of certain real estate entities under common management. The EDR Predecessor consisted of the following limited liability companies and limited partnerships:

Allen & O Hara Education Services, LLC ( AOES ), a Tennessee limited liability company performing student housing management activities.

Allen & O Hara Development Company, LLC ( AODC ), a limited liability company and formerly a wholly owned subsidiary of AOES, providing development consulting services for third party student housing properties.

Allen & O Hara Educational Properties LLC, a limited liability company, previously holding the ownership interests in the student housing property referred to as The Gables Apartments ( The Gables ).

Education Properties Trust, LLC ( EPT ), a Delaware limited liability company, owned and managed the following four garden-style student housing properties through four separate wholly-owned limited liability companies:

*Players Club Apartments, Tallahassee, Florida*

*The Reserve at Athens, Athens, Georgia*

*The Reserve at Clemson, Clemson, South Carolina*

*NorthPointe Apartments, Tucson, Arizona*

C Station, LLC, a Tennessee limited liability company, owned and operated one garden-style student housing property referred to as College Station.

University Towers Raleigh, LLC, a North Carolina limited liability company, owned a student housing property referred to as University Towers.

Paul O. Bower (the Promoter ) formed the Trust with the intent to effect the Offering of the common stock of the Trust. Concurrent with the Offering, the Trust contributed the net proceeds from the offering for 100% of the general partnership interests and a majority of the limited partnership interests in a newly formed majority-owned Delaware limited partnership, Education Realty Operating Partnership, LP (the Operating Partnership ). The Operating Partnership together with Allen & O Hara Education Services, Inc. (the taxable REIT subsidiary or TRS ), and the partners and members of the affiliated partnerships and limited liability companies of the EDR Predecessor, engaged in the formation transactions described in Note 2.

The Operating Partnership owns, directly or indirectly, interests in student housing communities located near major universities in the United States. The Trust also provides real estate facility management, development and other advisory services through subsidiaries of the Operating Partnership to third parties and to joint ventures in which the Trust is invested.

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The Trust is subject to the risks involved with the ownership and operations of residential real estate near major universities throughout the United States. These include, among others, the risks 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.

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### **2. The offering, the formation transactions and the private placement**

The Trust completed the initial public offering (the *Offering*) of its common stock on January 31, 2005. The Trust sold 21,850,000 shares of common stock, including 2,850,000 shares related to the full exercise of the over-allotment option by the underwriters of the Offering, at a price of \$16.00 per share. The Offering raised net proceeds of approximately \$320,400, after underwriting discounts and offering expenses of approximately \$29,200. The Trust contributed the net proceeds of the Offering for 100% of the general partnership interests and a majority of the limited partnership interests in the Operating Partnership.

Concurrent with the Offering the Operating Partnership acquired directly or indirectly the EDR Predecessor entities for \$36,500 in cash, the issuance of \$18,300 in Operating Partnership units and the assumption of \$81,500 of debt. The Operating Partnership also acquired 14 properties referred to as the JPI portfolio simultaneous with the Offering. The purchase price approximated \$401,975. The Operating Partnership assumed total first mortgage debt of \$311,500, and repaid \$93,360 with the use of the net proceeds of the Offering. Additionally the Operating Partnership issued warrants approximating \$375 in value and Operating Partnership units approximating \$7,995 in estimated value. The acquisition of the EDR Predecessor and the JPI portfolio is referred to herein as the Formation Transactions.

On September 30, 2005, the Trust completed a private placement of 4,375,000 shares of its common stock at a price of \$16.00 per share (the *Private Placement*). The Private Placement raised net proceeds of approximately \$67,000, after offering expenses of approximately \$3,000. These shares were registered with the Securities and Exchange Commission on January 25, 2006. The proceeds were used to acquire the 13 student housing properties from Place Properties, L.P. ( *Place Portfolio* ) on January 6, 2006 discussed in Note 8.

### **3. Summary of significant accounting policies**

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

The accompanying consolidated and combined 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 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.

The accompanying combined financial statements of the EDR Predecessor for the period January 1, 2005 through January 30, 2005 represent operating results of the entities comprising the EDR Predecessor. The historical combined financial statements of the EDR Predecessor are presented as the Promoter, either directly or indirectly through his previous ownership in AOES, managed the EDR Predecessor prior to the Trust acquiring those interests in connection with the Formation Transactions.

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

#### *Reclassifications*

Certain prior period amounts have been reclassified to conform to the current period presentation. Certain overhead costs were previously included in student housing leasing operations expense in the statement of operations in the prior year interim financial statements. These costs were reclassified to general and administrative expense to conform to the way the business is managed. The costs totaled \$1,004 and \$2,130 for the three and nine months ended September 30, 2005, respectively.

#### *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 and EDR Predecessor'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, together with the Trust's annual report on Form 10-K for the

year ended December 31, 2005, filed with the Securities and Exchange Commission.

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### *Use of estimates*

The preparation of financial statements in accordance with GAAP requires making estimates and assumptions. Such estimates and assumptions affect the reported amounts of assets and liabilities, as well as the disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. 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 for the purpose of preparing the consolidated and combined statements of cash flows. The Trust maintains cash balances in various banks. At times the amounts of cash may exceed the \$100,000 amount the FDIC insures. The Trust does not believe it is exposed to any significant credit risk on cash and cash equivalents.

### *Restricted cash*

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

### *Distributions*

The Trust pays regular quarterly cash distributions to shareholders. These distributions are determined quarterly by the Board based on the operating results, economic conditions, capital expenditure requirements, the Internal Revenue Code's REIT annual distribution requirements, leverage covenants imposed by our revolving credit facility and other debt documents, and any other matters the Board deems relevant.

### *Student housing properties*

Land, land improvements, buildings and improvements, and furniture, fixtures and equipment are recorded at cost. Buildings and improvements are depreciated over 30 to 40 years, land improvements are depreciated over 15 years and furniture, fixtures, and equipment are depreciated over estimated useful lives ranging from 3 to 7 years. Depreciation is computed using the straight-line method for financial reporting purposes.

Acquisitions of student housing properties are accounted for utilizing the purchase method in accordance with Statement of Financial Accounting Standards (SFAS) No. 141, *Business Combinations*, and accordingly, the results of operations are included in the results of operations from the respective dates of acquisition. Pre-acquisition costs, which include legal and professional fees and other third party costs related directly to the acquisition of the property, are accounted for as part of the purchase price. Independent 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 other identifiable intangibles such as amounts related to in-place leases.

Management assesses impairment of long-lived assets in accordance with SFAS No. 144, *Accounting for the Impairment and Disposal of Long-lived Assets*. SFAS No. 144 requires that long-lived assets to be held and used be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In accordance with SFAS No. 144, management uses an estimate of future undiscounted cash flows of the related asset over the remaining life in measuring whether the assets are recoverable. As of September 30, 2006, management determined that no indicators of impairment existed.

### *Investment in unconsolidated joint ventures and limited liability companies*

The Operating Partnership accounts for its investments in unconsolidated joint ventures and limited liability companies using the equity method whereby the cost of an investment is adjusted for the share of equity in earnings of the respective investment reduced by distributions received. The earnings and distributions of the unconsolidated joint ventures and limited liability companies are allocated based on each owner's respective ownership interests.

### *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.

### *Offering and Private Placement costs*

Specific incremental costs directly attributable to the Offering and the Private Placement were deferred and charged against the gross proceeds. Accordingly, underwriting commissions and other stock issuance costs are

reflected as a reduction of additional paid-in capital.

**Table of Contents***Debt premiums/discounts*

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

*Income taxes*

The Trust has elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended (the "Code"). The Trust is generally not subject to federal income tax to the extent that it distributes at least 90% of its taxable income for each tax year to its shareholders. 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 income tax (including any applicable alternative minimum tax) on its taxable income and property and to federal income and excise taxes on its undistributed 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.

*Earnings per share*

The Trust calculates earnings per share in accordance with SFAS No. 128, *Earnings Per Share*. Basic earnings per share is calculated by dividing net earnings available to common shares by weighted average common shares outstanding. Diluted earnings per share is calculated similarly, except that it includes the dilutive effect of the assumed exercise of potentially dilutive securities. At September 30, 2006, 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                   | 914   |
| University Towers Operating Partnership units | 270   |
| Restricted Stock (unvested shares)            | 120   |
| Profits Interest Units                        | 260   |
| Total potentially dilutive securities         | 1,564 |

A reconciliation of the numerators and denominators for the basic and diluted earnings per share computations is not required due to the fact 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*

The Trust accounts for its goodwill and other intangible assets under SFAS No. 142, *Goodwill and Other Intangible Assets*. Goodwill is tested annually for impairment, 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.

*Minority interests*

Minority interests in the Operating Partnership represent limited partnership interests in the form of operating partnership units and profit interest units. Income is allocated to minority interests based on weighted average percentage ownership each fiscal quarter.

*Revenue recognition*

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

*Student housing leasing revenue* Student housing leasing revenue is comprised of all revenue related to the leasing activities at the student housing properties and includes revenues from the leasing of space, from parking lot rentals, and from providing certain ancillary services. This revenue is reflected in student housing leasing revenue in the accompanying consolidated and combined statements of operations. Students are required to execute lease contracts

with payment schedules that vary from single to monthly payments. Generally, the Trust requires each executed leasing contract to be accompanied by a nonrefundable application fee and a signed parental guarantee. Receivables are recorded when billed, revenues and related lease incentives and nonrefundable application fees are recognized on a straight-line basis over the term of the contracts. The Trust has no contingent rental contracts except as noted below related to other leasing revenue. At certain student 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.

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*Student housing food service revenue* The Trust provides food service to an unaffiliated secondary boarding school through a contract covering a nine-month period. The contract requires a flat weekly fee and the related revenues are recognized on a straight-line basis over the contract period. Additionally, the Trust maintains a dining facility at University Towers, which offers meal plans to the tenants as well as dining to other third party customers. The meal plans typically require upfront payment by the tenant covering the school semester and the related revenue is recognized on a straight-line basis over the corresponding semester.

*Other leasing revenue* Other leasing revenue relates to our leasing of the 13 properties we acquired from Place Properties ( Place ) discussed in Note 8. Simultaneous with the acquisition of the 13 properties, the Trust leased the assets to Place and receives base monthly rent of \$1,145 and has the right to receive Additional Rent annually if the properties exceed certain criteria defined in the lease agreement. Base rent is recognized on a straight line basis over the lease term and Additional Rent is recognized only upon satisfaction of the defined criteria.

*Third-party development consulting 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 we typically receive a portion of the fees up front. These fees, including the upfront fee, are recognized using the percentage of completion method in proportion to the contract costs incurred by the owner over the course of the construction phases of the respective projects.

*Third-party management revenue* The Trust enters into management contracts to manage third party student housing facilities. 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 reimbursement revenue* The Trust pays certain payroll and related costs related to the operations of third party student housing properties 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 in accordance with Emerging Issues Task Force No. 01-14, *Income Statement Characterization of Reimbursements Received for Out of Pocket Expenses Incurred*.

### *Recent accounting pronouncements*

In December 2004, SFAS No. 153, *Exchange of Nonmonetary Assets*, was issued. SFAS No. 153 amends APB Opinion No. 29, *Accounting for Nonmonetary Transactions* to eliminate the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. That exception required that some nonmonetary exchanges be recorded on a carryover basis versus SFAS No. 153, which requires an entity record a nonmonetary exchange at fair value and recognize any gain or loss if the transaction has commercial substance. The standard specifies that a nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. SFAS No. 153 is effective the fiscal year beginning January 1, 2006. The adoption of SFAS No. 153 had no material impact on the Trust's consolidated financial condition or results of operations.

In December 2004, the Financial Accounting Standards Board ( FASB ) issued Statement No. 123 (revised December 2004), *Share-Based Payment* ( Statement 123(R) ). Statement 123(R) replaces FASB Statement No. 123, *Accounting for Stock-Based Compensation*, and supersedes APB Opinion No. 25, *Accounting for Stock Issued to Employees*. Statement 123(R) will require compensation costs related to share-based payment transactions to be recognized in the financial statements. With limited exceptions, the amount of compensation cost will be measured based on the grant-date fair value of the equity instruments issued. Compensation cost will be recognized over the period that an employee provides service in exchange for the award. Statement 123(R) is effective as of the beginning of the first annual reporting period that begins after June 15, 2005. The adoption of Statement 123(R) as of January 1, 2006 had no material impact on the Trust's consolidated financial condition or results of operations. See Note 9 for further discussion of share based compensation plans.

In June 2005, the FASB ratified EITF 04-5: *Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights* ( EITF 04-5 ). EITF 04-5 provides a framework for determining whether a general partner is required to consolidate limited partners. The new framework is significantly different than the guidance in SOP 78-9 and would make it more difficult for a general partner to overcome the presumption that it controls the limited partnership, requiring the

limited partner to have substantive kick-out or participating rights. Kick-out rights are the right to dissolve or liquidate the partnership or to otherwise remove the general partner without cause and participating rights are the right to effectively participate in significant decisions made in the ordinary course of the partnership's business. EITF 04-5 became effective immediately for all newly formed limited partnerships and existing limited partnerships which are modified. The guidance became effective for existing limited partnerships which are not modified the beginning of the first reporting period in fiscal years beginning after December 15, 2005. The adoption of EITF 04-5 had no material impact on the Trust's consolidated financial condition or results of operations.

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In March 2005, the FASB issued Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations—an interpretation of FASB Statement No. 143* ( Interpretation 47 ). Interpretation 47 clarifies that the term conditional asset retirement obligation as used in FASB Statement No. 143, *Accounting for Asset Retirement Obligations* , ( Statement 143 ) refers to a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the entity. Interpretation 47 is effective no later than the end of fiscal years ending after December 15, 2005, (December 31, 2005, for calendar-year enterprises). The adoption of Interpretation 47 had no material impact on the Trust's consolidated financial condition or results of operations.

In June 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109* ( FIN 48 ). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The Interpretation also provides guidance on description, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 becomes effective on January 1, 2007. The Trust is currently evaluating the impact of adopting FIN 48 on its consolidated financial position and results of operations.

In September 2006, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 108 ( SAB 108 ), which becomes effective for fiscal years ending after November 15, 2006. SAB 108 provides guidance on the consideration of the effects of prior period misstatements in quantifying current year misstatements for the purpose of a materiality assessment. SAB 108 requires an entity to evaluate the impact of correcting all misstatements, including both the carryover and reversing effects of prior year misstatements, on current year financial statements. If a misstatement is material to the current year financial statements, the prior year financial statements should also be corrected, even though such revision was, and continues to be, immaterial to the prior year financial statements. Correcting prior year financial statements for immaterial errors would not require previously filed reports to be amended. Such correction should be made in the current period filings. The Trust is currently evaluating the impact of adopting SAB 108 on its consolidated financial position and results of operations.

In September 2006, the FASB issued SFAS 157, *Fair Value Measurements* . SFAS 157 does not address what to measure at fair value; instead, it addresses how to measure fair value. SFAS 157 applies (with limited exceptions) to existing standards that require assets or liabilities to be measured at fair value. SFAS 157 establishes a fair value hierarchy, giving the highest priority to quoted prices in active markets and the lowest priority to unobservable data and requires new disclosures for assets and liabilities measured at fair value based on their level in the hierarchy. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Trust is currently evaluating the impact of adopting SFAS 157 on its consolidated financial position and results of operations.

### **4. Investments in unconsolidated entities**

As of September 30, 2006 and December 31, 2005, the Trust had investments, directly or indirectly, in the following unconsolidated joint ventures and limited liability companies that are accounted for under the equity method:

Salisbury Student Apartment Developers Joint Venture, 33% owned by AOES

Salisbury Student Apartment Developers LLC, a Maryland limited liability company, 33% owned by the Promoter

University of Louisville Apartment Developers LLC, a Kentucky limited liability company, 50% owned by the Promoter

Hines/AOES LLC, an Alabama limited liability company, 50% owned by AOES

National Development/Allen & O'Hara CUPA, LLC, a Pennsylvania limited liability company, 50% owned by Allen & O'Hara Development Company, LLC ( AODC )

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National Development/Allen & O Hara Lock Haven, LLC, a Pennsylvania limited liability company, 50% owned by AODC

National Development/Allen & O Hara Clarion, LLC, a Pennsylvania limited liability company, 50% owned by AODC

Allen & O Hara National Development Bloomsburg LLC, a Pennsylvania limited liability company, 50% owned by AODC

Allen & O Hara / Academic Privatization LLC, a Tennessee limited liability company, 50% owned by AODC

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On May 1, 2006 the Trust invested in the following unconsolidated joint ventures and limited liability companies which are accounted for under the equity method:

University Village-Greensboro LLC, a Delaware limited liability company, 25% owned by EDR Greensboro

AODC/CPA, LLC, a Delaware limited liability company, 50% owned by AODC

On September 15, 2006, the Trust obtained a 10% interest in WEDR Riverside Investors V, LLC, a Delaware limited liability company, which is accounted for under the equity method.

These entities primarily provide development consulting services to third party student housing owners in an agency capacity. The following is a summary of financial information for the unconsolidated joint ventures and limited liability companies for the nine months ended September 30, 2006 and 2005:

|                                               | 2006     | 2005     |
|-----------------------------------------------|----------|----------|
| Results of Operations:                        |          |          |
| Revenues                                      | \$ 1,418 | \$ 1,230 |
| Net income                                    | 1,104    | 1,197    |
| Equity in earnings of unconsolidated entities | \$ 573   | \$ 587   |

## **5. Debt**

### **Notes payable and credit facility**

At December 31, 2004, the Operating Partnership had a Business Loan Agreement (the Agreement) with a financial institution with an outstanding balance of \$497. All outstanding amounts under the Agreement were paid off on January 31, 2005 with proceeds of the Offering.

The EDR Predecessor also had a demand note payable to the Promoter that allowed it to borrow up to \$600. The note had an outstanding balance of \$485 at December 31, 2004, and was paid in full on January 31, 2005 as part of the Formation Transactions.

The Operating Partnership obtained a revolving credit facility on January 31, 2005 from JPMorgan Chase Bank, N.A. and UBS Loan Finance LLC as co-lead managers. Those entities are affiliates of J.P. Morgan Securities Inc. and UBS Securities LLC, which were underwriters of the Offering. The revolving credit facility originally had availability in the amount of \$75 million and was subsequently increased to \$100 million on April 4, 2005.

On March 30, 2006 the Operating Partnership amended and restated the revolving credit facility (the Amended Revolver) dated January 31, 2005 and entered into a senior unsecured term loan facility (the Term Loan) in the amount of \$50 million. The Trust serves as the guarantor for any funds borrowed by the Operating Partnership under the Amended Revolver and the Term Loan. Additionally, the Amended Revolver is secured in a manner consistent with the original agreement whereby such security generally consists of a cross-collateralized, first mortgage lien on all unmortgaged properties. The Term Loan is not directly secured by a lien but has the benefit of a negative pledge on the equity interest in the mortgaged properties. The Amended Revolver and the Term Loan have a term of three years and mature on March 31, 2009, provided that the Operating Partnership may extend the maturity date for one year subject to certain conditions. At September 30, 2006, there was \$20.8 million outstanding under the Amended Revolver and \$50 million outstanding under the Term Loan. The Term Loan requires interest only payments through maturity.

Availability under the Operating Partnership's Amended Revolver is limited to a borrowing base availability consistent with the original agreement. The borrowing base availability is equal to the lesser of (i) 65% of the property asset value (as defined in the amended credit agreement) of the properties securing the facility and (ii) the loan amount which would produce a debt service coverage ratio of no less than 1.30, with debt service based on the greater of two different sets of conditions specified in the amended credit agreement.

The Operating Partnership's Amended Revolver and Term Loan contain customary affirmative and negative covenants and do contain 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.

The Trust is prohibited from making distributions that exceed \$1.20 per share unless prior to and after giving effect to such action the total leverage ratio is less than or equal to 60%. The amount of restricted payments permitted may be increased as long as either of the following conditions is met: (a) after giving effect to the increased restricted payment, the total leverage ratio shall remain less than or equal to 60%; or (b) the increased restricted payment, when considered along with all other restricted payments for the last 3 quarters, does not exceed (i) 100% of funds from operations for the applicable period through and including December 31, 2006, and (ii) 95% of funds from operations for the applicable period thereafter.

The interest rate per annum applicable to the Amended Revolver is, at the Operating Partnership's option, equal to a base rate or LIBOR plus an applicable margin based upon our leverage. The interest rate per annum applicable to the Term Loan is, at the Operating Partnership's option, equal to a base rate plus 1.25% or LIBOR plus 2.75%.

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**Mortgage debt**

In conjunction with the Formation Transactions, the Operating Partnership assumed total fixed rate mortgage debt of \$392,998 with an average interest rate of approximately 5.5%. Concurrent with the closing of the Formation Transactions, the Operating Partnership paid off \$115,221 of the assumed debt. In connection with management's decision to prepay certain debt obligations, the Trust recognized a charge of \$1,084 in February 2005.

In connection with the 2005 acquisitions described in Note 8 the Operating Partnership assumed an additional \$48,726 of fixed rate mortgage debt with a weighted average interest rate of 6.49%. In January 2006, the Operating Partnership assumed \$98,700 of mortgage debt with a fixed interest rate of 6.439% in connection with the acquisition of the Place Portfolio.

At September 30, 2006, the Trust had outstanding mortgage indebtedness of \$425,180 (net of unamortized debt premium of \$2,454). The scheduled maturities of outstanding mortgage indebtedness at September 30, 2006 are as follows:

**Fiscal Year Ending**

|                                                               |            |
|---------------------------------------------------------------|------------|
| 2006 (3 months ended December 31, 2006)                       | \$ 1,101   |
| 2007                                                          | 60,158     |
| 2008                                                          | 26,481     |
| 2009                                                          | 285,049    |
| 2010                                                          | 888        |
| 2011                                                          | 947        |
| Thereafter                                                    | 48,102     |
| Total                                                         | 422,726    |
| Unamortized debt premium                                      | 2,454      |
| Outstanding at September 30, 2006, net of unamortized premium | \$ 425,180 |

At September 30, 2006, the outstanding mortgage debt had a weighted average interest rate of 5.85% and carried an average term to maturity of 2.9 years.

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Business segments are defined by their distinct customer base and service provided. Three reportable segments have been identified: student housing leasing, third-party development consulting services and third-party management services. Management evaluates each segment's performance based on net operating income, which is defined as income before depreciation, amortization, interest expense and equity in earnings of unconsolidated entities. Intercompany fees are reflected at the contractually stipulated amounts. The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies. The following table represents segment information for the nine months ended September 30, 2006 and the combined results of operations for Education Realty Trust, Inc. (post offering) and the EDR Predecessor (pre Offering) for the nine months ended September 30, 2005:

|                                             | Nine months ended September 30, 2006 |                                  |                                 |                          |           | Nine months ended September 30, 2005(1) |                                  |                                 |                          |           |
|---------------------------------------------|--------------------------------------|----------------------------------|---------------------------------|--------------------------|-----------|-----------------------------------------|----------------------------------|---------------------------------|--------------------------|-----------|
|                                             | Student Housing Leasing              | Third-Party Development Services | Third-Party Management Services | Intercompany Adjustments | Total     | Student Housing Leasing                 | Third-Party Development Services | Third-Party Management Services | Intercompany Adjustments | Total     |
| <b>Revenues:</b>                            |                                      |                                  |                                 |                          |           |                                         |                                  |                                 |                          |           |
| Student housing leasing revenue             | \$ 63,421                            | \$                               | \$                              | \$                       | \$ 63,421 | \$ 52,832                               | \$                               | \$                              | \$                       | \$ 52,832 |
| Student housing food service revenue        | 2,670                                |                                  |                                 |                          | 2,670     | 2,603                                   |                                  |                                 |                          | 2,603     |
| Other leasing revenue                       | 10,577                               |                                  |                                 |                          | 10,577    |                                         |                                  |                                 |                          |           |
| Third-party development consulting services |                                      | 2,283                            |                                 |                          | 2,283     |                                         | 973                              |                                 |                          | 973       |
| Third-party management revenue              |                                      |                                  | 2,051                           |                          | 2,051     |                                         |                                  | 1,258                           |                          | 1,258     |
| Intersegment revenues                       |                                      |                                  | 2,657                           | (2,657)                  |           |                                         |                                  | 1,862                           | (1,862)                  |           |
| Operating expense reimbursements            |                                      |                                  |                                 | 5,891                    | 5,891     |                                         |                                  |                                 | 4,209                    | 4,209     |
| Total revenues                              | 76,668                               | 2,283                            | 4,708                           | 3,234                    | 86,893    | 55,435                                  | 973                              | 3,120                           | 2,347                    | 61,875    |
| <b>Operating Expenses:</b>                  |                                      |                                  |                                 |                          |           |                                         |                                  |                                 |                          |           |
| Student housing leasing operations          | 32,159                               |                                  |                                 |                          | 32,159    | 27,306                                  |                                  |                                 |                          | 27,306    |
| Student housing food service operations     | 2,427                                |                                  |                                 |                          | 2,427     | 2,449                                   |                                  |                                 |                          | 2,449     |
|                                             |                                      | 1,601                            | 3,653                           |                          | 5,254     |                                         | 1,413                            | 3,055                           |                          | 4,468     |

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|                                                                                                        |            |          |          |         |            |             |          |          |         |             |
|--------------------------------------------------------------------------------------------------------|------------|----------|----------|---------|------------|-------------|----------|----------|---------|-------------|
| General and administrative                                                                             |            |          |          |         |            |             |          |          |         |             |
| Intersegment expenses                                                                                  | 2,657      |          |          | (2,657) |            | 1,862       |          |          | (1,862) |             |
| Reimbursable operating expenses                                                                        |            |          |          | 5,891   | 5,891      |             |          |          | 4,209   | 4,209       |
| Total operating expenses                                                                               | 37,243     | 1,601    | 3,653    | 3,234   | 45,731     | 31,617      | 1,413    | 3,055    | 2,347   | 38,432      |
| Net operating income (loss)                                                                            | 39,425     | 682      | 1,055    |         | 41,162     | 23,818      | (440)    | 65       |         | 23,443      |
| Nonoperating expenses(2)                                                                               | 48,751     | (16)     |          |         | 48,735     | 36,574      | (6)      | (9)      |         | 36,559      |
| Income (loss) before equity in earnings of unconsolidated entities, income taxes and minority interest | (9,326)    | 698      | 1,055    |         | (7,573)    | (12,756)    | (434)    | 74       |         | (13,116)    |
| Equity in earnings of unconsolidated entities                                                          | (14)       | 587      |          |         | 573        |             | 587      |          |         | 587         |
| Income (loss) before taxes and minority interest(4)                                                    | \$ (9,340) | \$ 1,285 | \$ 1,055 | \$      | \$ (7,000) | \$ (12,756) | \$ 153   | \$ 74    | \$      | \$ (12,529) |
| Total segment assets (3)                                                                               | \$ 830,263 | \$ 2,256 | \$ 5,220 | \$      | \$ 837,739 | \$ 641,612  | \$ 1,300 | \$ 5,445 | \$      | \$ 648,357  |

(1) The segment information presented for the nine months ended September 30, 2005 represents the combined results of operations for Education Realty Trust, Inc. (post Offering) and the EDR Predecessor (pre Offering).

(2) Nonoperating expenses include interest expense, interest income and exit fees on early payment of debt, amortization of deferred financing costs, depreciation, and amortization of intangibles.

(3) Significant increases in segment assets related to student housing leasing from that presented at December 31, 2005 include the acquisition of the Place Portfolio as described in Note 2 and Note 8 and the acquisition of Statesboro as discussed in Note 8.

(4) The following is a reconciliation of the reportable segments' net loss before income taxes and minority interest to the Trust's consolidated net loss before income taxes and minority interest:

|                                                                            |             |             |
|----------------------------------------------------------------------------|-------------|-------------|
|                                                                            | <b>2006</b> | <b>2005</b> |
| Net loss before income taxes and minority interest for reportable segments | \$ (7,000)  | \$ (12,529) |

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Unallocated corporate amounts:

|                                                            |             |             |
|------------------------------------------------------------|-------------|-------------|
| Noncash compensation charge for PIU s and restricted stock | (591)       | (4,631)     |
| Other corporate expenses                                   | (3,979)     | (1,596)     |
| Net loss before income taxes and minority interest         | \$ (11,570) | \$ (18,756) |

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The following table represents segment information for the three months ended September 30, 2006 and 2005:

|                                             | Three months ended September 30, 2006 |                                 |                                 |             |           | Three months ended September 30, 2005 |                                 |                                 |             |           |
|---------------------------------------------|---------------------------------------|---------------------------------|---------------------------------|-------------|-----------|---------------------------------------|---------------------------------|---------------------------------|-------------|-----------|
|                                             | Student Housing Leasing               | Development Consulting Services | Third-Party Management Services | Adjustments | Total     | Student Housing Leasing               | Development Consulting Services | Third-Party Management Services | Adjustments | Total     |
| <b>Revenues:</b>                            |                                       |                                 |                                 |             |           |                                       |                                 |                                 |             |           |
| Student housing leasing revenue             | \$ 19,520                             | \$                              | \$                              | \$          | \$ 19,520 | \$ 20,145                             | \$                              | \$                              | \$          | \$ 20,145 |
| Student housing food service revenue        | 895                                   |                                 |                                 |             | 895       | 893                                   |                                 |                                 |             | 893       |
| Other leasing revenue                       | 3,709                                 |                                 |                                 |             | 3,709     |                                       |                                 |                                 |             |           |
| Third-party development consulting services |                                       | 856                             |                                 |             | 856       |                                       | 791                             |                                 |             | 791       |
| Third-party management revenue              |                                       |                                 | 653                             |             | 653       |                                       |                                 | 511                             |             | 511       |
| Intersegment revenues                       |                                       |                                 | 874                             | (874)       |           |                                       |                                 | 809                             | (809)       |           |
| Operating expense reimbursements            |                                       |                                 |                                 | 2,146       | 2,146     |                                       |                                 |                                 | 1,474       | 1,474     |
| Total revenues                              | 24,124                                | 856                             | 1,527                           | 1,272       | 27,779    | 21,038                                | 791                             | 1,320                           | 665         | 23,814    |
| <b>Operating Expenses:</b>                  |                                       |                                 |                                 |             |           |                                       |                                 |                                 |             |           |
| Student housing leasing operations          | 13,422                                |                                 |                                 |             | 13,422    | 13,570                                |                                 |                                 |             | 13,570    |
| Student housing food service operations     | 844                                   |                                 |                                 |             | 844       | 878                                   |                                 |                                 |             | 878       |
| General and administrative expenses         |                                       | 616                             | 1,382                           |             | 1,998     |                                       | 693                             | 1,573                           |             | 2,266     |
| Intersegment expenses                       | 874                                   |                                 |                                 | (874)       |           | 809                                   |                                 |                                 | (809)       |           |
| Reimbursable operating expenses             |                                       |                                 |                                 | 2,146       | 2,146     |                                       |                                 |                                 | 1,474       | 1,474     |
| Total operating expenses                    | 15,140                                | 616                             | 1,382                           | 1,272       | 18,410    | 15,257                                | 693                             | 1,573                           | 665         | 18,188    |
|                                             | 8,984                                 | 240                             | 145                             |             | 9,369     | 5,781                                 | 98                              | (253)                           |             | 5,626     |

|                                                                                                        |            |        |        |            |            |        |          |            |
|--------------------------------------------------------------------------------------------------------|------------|--------|--------|------------|------------|--------|----------|------------|
| Net operating income (loss)                                                                            |            |        |        |            |            |        |          |            |
| Nonoperating expenses(1)                                                                               | 16,579     | (16)   |        | 16,563     | 12,901     | (6)    | (9)      | 12,886     |
| Income (loss) before equity in earnings of unconsolidated entities, income taxes and minority interest | (7,595)    | 256    | 145    | (7,194)    | (7,120)    | 104    | (244)    | (7,260)    |
| Equity in earnings of unconsolidated entities                                                          | (14)       | 162    |        | 148        |            | 332    |          | 332        |
| Income (loss) before taxes and minority interest(2)                                                    | \$ (7,609) | \$ 418 | \$ 145 | \$ (7,046) | \$ (7,120) | \$ 436 | \$ (244) | \$ (6,928) |

(1) Nonoperating expenses include interest expense, interest income and exit fees on early payment of debt, amortization of deferred financing costs, depreciation, and amortization of intangibles.

(2) The following is a reconciliation of the reportable segments' net loss before income taxes and minority interest to the Trust's consolidated net loss before income taxes and minority interest:

|                                                                            | <b>2006</b> | <b>2005</b> |
|----------------------------------------------------------------------------|-------------|-------------|
| Net loss before income taxes and minority interest for reportable segments | \$ (7,046)  | \$ (6,928)  |
| Unallocated corporate amounts:                                             |             |             |
| Noncash compensation charge for PIU's and restricted stock                 | (63)        | (257)       |
| Other corporate expenses                                                   | (1,184)     | (276)       |
| Net loss before income taxes and minority interest                         | \$ (8,293)  | \$ (7,461)  |

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### **7. Commitments and contingencies**

In connection with the acquisition of the JPI portfolio discussed in Note 2, the Operating Partnership entered into an agreement to provide to the seller a revolving loan commitment secured by a pledge of the Operating Partnership units (499,688 units) issued to the seller in the purchase transaction. On April 10, 2006, the seller exchanged 400,632 Operating Partnership units (minority interest) in full satisfaction of the \$5,996 note receivable and accrued interest of \$120. The redemption of minority interest was recorded in accordance with SFAS No. 141, *Business Combinations*. The seller was released from the pledge of the remaining 99,056 Operating Partnership units. On April 26, 2006, the seller converted the remaining units to the Trust's common stock.

Additionally in connection with the acquisition of the JPI portfolio, the Trust became aware of a June 2001 notification from the United States Department of Justice of an on-going investigation regarding possible violations of the American Disabilities Act of 1990 and the Fair Housing Amendments Act of 1988. The notification included one of the student housing properties acquired from JPI. In October 2002 the investigations were delayed for an undetermined period of time and therefore such has not been fully resolved. Management does not believe the resolution of this matter will result in a material adverse effect on the Trust's consolidated financial condition or results of operations.

In conjunction with the closing of the acquisition of a student housing property at the University of Florida the Operating Partnership entered into a letter of credit agreement. The letter of credit remains outstanding in the amount of \$1,500 at September 30, 2006 and is secured by the Operating Partnership's existing revolving credit facility.

On May 10, 2006, the Operating Partnership guaranteed \$23,200 of construction debt held by University Village-Greensboro LLC in order to receive a 25% ownership stake in the venture with College Park Apartments. The construction debt is expected to be refinanced in September of 2008 after construction is complete and the student housing community is occupied. The Operating Partnership will not guarantee the debt after the construction loan is refinanced.

The Trust also has various operating lease commitments for corporate office space, furniture and technology equipment.

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

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

### **8. Acquisition of real estate investments**

During 2005 the Operating Partnership acquired the entities comprising the EDR Predecessor (including student housing properties) and the 14 student housing properties comprising the JPI Portfolio in connection with the Formation Transactions discussed in Note 2. The Operating Partnership also acquired five additional student housing properties during fiscal 2005 (the 2005 acquisitions) for an aggregate purchase price of \$119,700, including the assumption of mortgage debt with a contract value of \$48,700.

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On January 1, 2006, the Operating Partnership acquired the 13 student housing properties referred to as the Place Portfolio for a combination of cash, partnership units and assumed debt. The cash contribution totaled approximately \$105,200. The Operating Partnership also issued 36,954 Operating Partnership units valued at approximately \$500 , and assumed liabilities of \$800 and interest-only mortgage debt of approximately \$98,700. A summary follows of the estimated fair values of the assets acquired and the liabilities assumed as of the date of the acquisition:

|                                               | Preliminary<br>allocation<br>Place Portfolio |
|-----------------------------------------------|----------------------------------------------|
| Current assets and restricted cash            | \$ 2,376                                     |
| Student housing properties                    | 202,227                                      |
| Other                                         | 570                                          |
| Total assets acquired                         | 205,173                                      |
| Current liabilities                           | (855)                                        |
| Mortgage debt assumed net of premium/discount | (98,660)                                     |
| Acquisition costs                             | (7,446)                                      |
| Purchase price                                | \$ 98,212                                    |

On June 15, 2006, the Operating Partnership acquired Players Club, an off-campus collegiate community located near Georgia Southern University in Statesboro, Georgia ( Statesboro ), for \$12,900 in cash and assumed liabilities. The Operating Partnership used the Amended Revolver to fund the purchase. A summary follows of the estimated fair values of the assets acquired and the liabilities assumed as of the date of the acquisition:

|                                               | Preliminary<br>allocation<br>Statesboro |
|-----------------------------------------------|-----------------------------------------|
| Current assets and restricted cash            | \$ 77                                   |
| Student housing properties                    | 12,703                                  |
| Other                                         | 159                                     |
| Total assets acquired                         | 12,939                                  |
| Current liabilities                           | (115)                                   |
| Mortgage debt assumed net of premium/discount |                                         |
| Acquisition costs                             | (65)                                    |
| Purchase price                                | \$ 12,759                               |

The purchase price allocations related to the Place Portfolio and Statesboro acquisitions are considered preliminary and changes are expected as additional information becomes available. Management expects to continue its process of refining and finalizing our purchase accounting estimates and assumptions during 2006 and as a result these preliminary purchase price allocations are subject to change.

The results of operations for each acquisition have been included in the accompanying consolidated statements of operations from the respective acquisition dates. The following pro forma financial information for the nine months ending September 30, 2006 gives effect to the Statesboro acquisition as if it occurred on January 1, 2006 and for the nine months ended September 30, 2005 gives effect to the Statesboro acquisition, the Place Portfolio acquisition, the Formation Transactions, the 2005 acquisitions and the Private Placement as if the transactions had occurred on January 1, 2005:

|                    | <b>Nine Months<br/>Ended<br/>September 30,<br/>2006</b> | <b>Nine Months<br/>Ended<br/>September 30,<br/>2005</b> |
|--------------------|---------------------------------------------------------|---------------------------------------------------------|
| Pro forma revenue  | \$ 87,876                                               | \$ 85,001                                               |
| Pro forma net loss | \$ (11,061)                                             | \$ (18,320)                                             |
| Loss per share     | \$ (0.42)                                               | \$ (0.70)                                               |

All pro forma financial information presented in this note is unaudited and is not necessarily indicative of the results that actually would have occurred if the properties were purchased at the beginning of the respective reporting period.

#### **9. Incentive plan**

The Trust adopted the Education Realty Trust, Inc. 2004 Incentive Plan (the "Plan") effective upon the closing of the Offering. The Plan provides for the grant of stock options, restricted stock units, stock appreciation rights, other stock-based incentive awards, and

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profits interest units to employees, directors and other key persons providing services to the Company. The Trust has reserved 800,000 shares of its common stock for issuance pursuant to the Plan, subject to adjustments for changes in the Trust's capital structure, including share splits, dividends and recapitalizations. The number of shares reserved under the Plan is also subject to an annual adjustment, beginning on January 1, 2006, so that the total number of shares reserved under the Plan is equal to 4% of the aggregate number of shares outstanding on the last day of the preceding fiscal year; provided that such annual increase generally may not exceed 80,000 shares.

Effective January 1, 2006, the Trust adopted the provisions of SFAS No. 123 (R) using the modified prospective transition method. This pronouncement requires that compensation costs related to share-based payments be recognized in financial statements. Prior to January 1, 2006, the Trust applied the provisions of APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations. Total compensation cost recognized in general and administrative expense in the accompanying consolidated statements of operations for the nine months ended September 30, 2006 and 2005 was approximately \$600 and \$4,600, respectively. The adoption of SFAS No. 123 (R) had no impact on the accompanying financial statements other than the reclassification of unearned compensation of \$2,470 to additional paid-in capital for the prior period presented.

In 2005, the Trust issued 180,000 shares of restricted stock under the Plan, to certain of its executive officers, which will vest ratably over five years. The Trust also issued an additional 6,000 shares during 2005 to its independent directors, which were fully vested as of December 31, 2005. During the nine months ended September 30, 2006, the Trust issued 4,000 shares to its executive officers and 2,000 shares to its independent directors. The 2006 issuances vested immediately. A restricted stock award is an award of the Trust's common stock that is subject to restrictions on transferability and other restrictions as the Trust's compensation committee determines in its sole discretion on the date of grant. The restrictions may lapse over a specified period of employment or the satisfaction of pre-established criteria as our compensation committee may determine. Except to the extent restricted under the award agreement, a participant awarded restricted shares will have all of the rights of a stockholder as to those shares, including, without limitation, the right to vote and the right to receive dividends or distributions on the shares. Restricted stock is generally taxed at the time of vesting. At September 30, 2006, unearned compensation totaled \$2,000 and will be recorded as expense over the applicable vesting period. The value is determined based on the market value of the Trust's common stock on the grant date. During the nine months ended September 30, 2006 and 2005, compensation expense of \$500 for both periods, was recognized in the accompanying consolidated statement of operations, related to the vesting of restricted stock.

Additionally, the Trust granted 245,000 profits interest units in 2005 simultaneous with and subsequent to the completion of the Offering that vested immediately and resulted in a compensation charge (reflected in general and administrative expense) of \$4,100 in the accompanying consolidated statements of operations for the nine months ended September 30, 2005. Profits interest units, or PIUs, are units in a limited liability company controlled by the Trust that holds a special class of partnership interests in the Operating Partnership. Each PIU will be deemed equivalent to an award of one share of the Trust's common stock and will entitle the owner of such unit to receive the same quarterly per unit distributions as one common unit of the Operating Partnership. This treatment with respect to quarterly distributions is similar to the expected treatment of restricted stock awards, which will generally receive full dividends whether vested or not. PIUs will not initially have full parity with common units of the Operating Partnership with respect to liquidating distributions. Upon the occurrence of specified capital equalization events, PIUs may, over time, achieve full or partial parity with common units of the Operating Partnership for all purposes, and could accrete to an economic value equivalent to the Trust's common stock on a one-for-one basis. If such parity is reached, vested PIUs may be exchanged into an equal number of the Trust's shares of common stock at any time. However, there are circumstances under which full parity would not be reached. Until such parity is reached, the value that may be realized for vested PIUs will be less than the value of an equal number of shares of the Trust's common stock, if there is any value at all. The grant or vesting of PIUs is not expected to be a taxable transaction to recipients. Conversely, we will not receive any tax deduction for compensation expense from the grant of PIUs. PIUs are treated as minority interests in the accompanying consolidated financial statements at an amount equal to the holders ownership percentage of the net equity of the Operating Partnership.

A summary of incentive plan activity for the nine months ended September 30, 2006 is as follows:

|                                   | <b>PIU's</b> | <b>Restricted<br/>Stock</b> | <b>Total</b> |
|-----------------------------------|--------------|-----------------------------|--------------|
| Outstanding at December 31, 2005  | 245,000      | 186,000                     | 431,000      |
| Granted                           | 12,500       |                             | 12,500       |
| Outstanding at March 31, 2006     | 257,500      | 186,000                     | 443,500      |
| Granted                           |              | 4,000                       | 4,000        |
| Redeemed                          | (2,500)      |                             | (2,500)      |
| Outstanding at June 30, 2006      | 255,000      | 190,000                     | 445,000      |
| Granted                           | 5,000        | 2,000                       | 7,000        |
| Outstanding at September 30, 2006 | 260,000      | 192,000                     | 452,000      |
| Vested at September 30, 2006      | 260,000      | 71,883                      | 331,883      |

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### **10. Subsequent events**

On October 10, 2006 our board of directors declared a third quarter distribution of \$0.205 per share of common stock for the quarter ending on September 30, 2006. The distribution is payable on November 7, 2006 to stockholders of record at the close of business on October 24, 2006.

On October 16, 2006 the Trust issued 54,083 shares of common stock under the direct stock purchase and dividend reinvestment plan. The common stock was issued at a price of \$14.7925 per share.

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

*The following discussion should be read in conjunction with the financial statements and notes thereto appearing elsewhere in this Quarterly Report. Certain statements contained in this filing are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including but not limited to statements related to plans for future acquisitions, our business and investment strategy, market trends and projected capital expenditures. When used in this report, the words expect, anticipate, intend, plan, believe, seek, estimate, would, could, should, and similar expressions are generally intended to identify forward-looking statements. You should not place undue reliance on these forward-looking statements, which reflect our opinions only as of the date of this Quarterly Report. We assume no obligation to update or supplement forward-looking statements that become untrue because of subsequent events. Forward-looking statements are subject to risks, uncertainties and other factors that could cause actual results to differ materially from future results expressed or implied by such forward-looking statements. For further information about these and other factors that could affect our future results, please see the Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2005. Investors are cautioned that any forward-looking statements are not guarantees of future performance and involve risks and uncertainties, and that actual results may differ materially from those contemplated by such forward-looking statements.*

We were formed to continue and expand upon the student housing business of Allen & O'Hara, Inc. and its affiliates (the Predecessor), which commenced in 1964. We commenced operations upon the completion of our initial public offering (the Offering) and formation transactions (the Formation Transactions), which occurred on January 31, 2005 (the Closing Date). Substantially all of our assets are held by, and we conduct substantially all of our activities through, Education Realty Operating Partnership, LP (our Operating Partnership), Allen & O'Hara Education Services, Inc. (our Management Company) and Allen & O'Hara Development Company, LLC (our Development Company), each of which are direct or indirect subsidiaries of us.

The historical operations prior to the Closing Date that are described in this report refer to the operations of the Predecessor. We have described our operations in this report as if the historical operations of the Predecessor were conducted by us. As a result, and due to substantial growth through acquisition and other IPO related activities, our results of operations for the nine months ended September 30, 2006 are not comparable to our results of operations for the nine months ended September 30, 2005. Where appropriate, the following discussion includes an analysis of the completion of the Offering and certain matters that have occurred following the completion of the Offering.

### **Overview**

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

We earn income from rental payments we receive as a result of our ownership of student housing properties. We also earn income by performing property management services and development consulting services for third parties through our Management Company and Development Company, respectively. While we manage 68% of the properties we own, we will not recognize any fee income from their management on a consolidated basis. We have elected to be taxed as a REIT for federal income tax purposes.

### **Our Business Segments**

We define business segments by their distinct customer base and service provided. Management has identified three reportable segments: student housing leasing, third-party development consulting services and third-party

management services. We evaluate each segment's performance based on net operating income, which is defined as income before depreciation, amortization, interest expense and equity in earnings of unconsolidated entities. The accounting policies of the reportable segments are described in more detail in the

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summary of significant accounting policies in the notes to the financial statements appearing elsewhere in this Quarterly Report. Inter-company fees are reflected at the contractually stipulated amounts.

### ***Student Housing Leasing***

Student housing leasing revenue represented approximately 94.6% of our revenue, excluding operating expense reimbursements, for the nine months ended September 30, 2006. Our revenue related to food service operations at two locations is included in this segment. Additionally we include other leasing revenue related to the Place Portfolio lease in this segment.

Unlike multi-family housing where apartments are leased by the unit, student-housing communities are typically leased by the bed on an individual lease liability basis. Individual lease liability limits each resident's liability to his or her own rent without liability for a roommate's rent. A parent or guardian is required to execute each lease as a guarantor unless the resident provides adequate proof of income. The number of lease contracts that we administer is therefore equivalent to the number of beds occupied instead of the number of apartment units.

Due to our predominantly furnished private bedroom accommodations, the high level of student-oriented amenities offered at our communities and the individual lease liability, we believe our properties can typically command higher per-unit and per-square foot rental rates than most multi-family properties in the same geographic markets. We are also typically able to command higher rental rates than on-campus student housing, which tend to offer properties with fewer amenities.

Substantially all of our leases commence mid-August and terminate the last day of July. These dates coincide with the commencement of the universities' fall academic term and typically terminate at the completion of the subsequent summer school session. As such, we are required to re-lease each property in its entirety each year, resulting in significant turnover in our tenant population from year to year. For the lease terms starting in 2005 and 2006 approximately 69.9% and 68.3%, respectively, of our beds were leased to students who were first-time residents at our properties. As a result, we are highly dependent upon the effectiveness of our marketing and leasing efforts during the annual leasing season that typically begins in February and ends in August of each year. Our properties' occupancy rates are therefore relatively stable with a slight decline during the August to July lease year but are susceptible to fluctuation at the commencement of each new academic year.

During the first two weeks of August, prior to the commencement of each new lease period, we prepare the units for the new incoming tenants. We do not generally recognize lease revenue during this period, as we have no leases in place. In addition, during this turnover period we incur significant expenses, which we immediately recognize, making our units ready for occupancy during the month of August. Consequently, our August lease turnover results in seasonality in our operating results during the third quarter of each year.

### ***Third-Party Management Services***

Revenue from our third-party management services, excluding operating expense reimbursements, represented approximately 2.6% of our revenue for the nine months ended September 30, 2006. These revenues are typically derived from multi-year management agreements, under which management fees are typically 3-5% of leasing revenue. These agreements typically have an initial term of five to ten years with a renewal option for an additional five years. As part of the management agreements, there are certain payroll and related expenses we pay on behalf of the third-party property owners. These costs are included in reimbursable operating expenses and are required to be reimbursed to us by the third-party property owners. We recognize the expense and revenue related to these reimbursements when incurred. These operating expenses are wholly reimbursable and therefore not considered by our management when analyzing the operating performance of our third-party management services business.

### ***Third-Party Development Consulting Services***

Revenue from our third-party development consulting services, excluding operating expense reimbursements, represented 2.8% of our revenue for the nine months ended September 30, 2006. Fees for these services are typically 3-5% of the total project cost and are payable over the life of the project, which is typically one to two years in length. At times we will pay pre-development expenses such as architectural fees and permits if such are required prior to the project's financing being in place. We typically obtain a guarantee from the owner for repayment of these project costs. We typically incur costs that are reimbursable by the project. We recognize these costs as expense when incurred, while the reimbursement revenue is not recognized until the consulting contract is awarded or reimbursements are

otherwise guaranteed by the customer. These operating expenses are wholly reimbursable and therefore not considered by our management when analyzing the operating performance of our third-party development consulting services business.

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

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

### **Trends and Outlook**

#### ***Rents and Occupancy***

We expect the general trends of increased university enrollment and limited availability of on-campus housing to continue for the foreseeable future, providing us with continued opportunities to maximize revenues through increased occupancy and/or rental rates in our owned portfolio. We manage our properties to maximize revenues, which are primarily determined by two components: rental rates and occupancy rates. We customarily adjust rental rates in order to maximize revenues, which in some cases results in a lower occupancy rate, but in most cases results in stable or increasing revenues from the property. As a result, a decrease in occupancy rates may be offset by an increase in rental rates and may not be material to our operations.

#### ***Integration Costs Related to the Acquisition of Additional Properties***

Our acquisition of 14 properties previously owned by JPI Investment Company, L.P. and its affiliates ( JPI ) on the Closing Date and our acquisition of an additional five properties since the Closing Date, two of which were acquired during the first quarter ending March 31, 2005, two were acquired in the third quarter ended September 30, 2005, and one was acquired in July 2005 have resulted in over 70% of our portfolio being new to the company and our management style in 2005. Additionally, we added a property in June of 2006. Although the company assumed management of the acquired properties ahead of schedule, additional costs, including operating inefficiencies, were experienced through the end of 2005 while fully assimilating the properties into our operating style. The growth in our portfolio has also required us to add additional regional management and corresponding support staff in our corporate office.

#### ***General and Administrative Costs***

As a result of becoming a public company in January 2005, we experienced significant increases in legal and accounting costs, director fees, costs related to communicating with stockholders, including ongoing communications and distribution of proxy statements in connection with stockholder meetings, and other costs that are unique to being a public company. We expect additional increases in 2006 as a result of costs associated with formulating and documenting our internal control systems and implementation of the Sarbanes Oxley Act of 2002. For the nine months ended September 30, 2006 these costs totaled approximately \$638.

### **Critical Accounting Policies**

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

#### ***Student Housing Leasing Revenue Recognition***

Student housing leasing revenue is comprised of all revenue related to the leasing activities at our student housing properties and includes revenues from the leasing of space, parking lot rentals and certain ancillary services. Revenue from our food service operations is also included in this segment. Additionally we include other leasing revenue related to the Place Portfolio lease in this segment.

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

### ***Student Housing Food Service Revenue Recognition***

The Trust provides food service to an unaffiliated secondary boarding school through a contract covering a nine-month period. The contract requires a flat weekly fee and the related revenues are recognized on a straight-line basis over the contract period. Additionally, the Trust maintains a dining facility at University Towers, which offers meal plans to the tenants as well as dining to other third party customers. The meal plans typically require upfront payment by the tenant covering the school semester and the related revenue is recognized on a straight-line basis over the corresponding semester.

### ***Other Leasing Revenue Recognition***

Other leasing revenue relates to our leasing of 13 properties we acquired from Place Properties ( Place ). Simultaneous with the acquisition of the 13 properties, the Trust leased the assets to Place and receives base monthly rent of \$1,145 and has the right to receive Additional Rent annually if the properties exceed certain criteria defined in the lease agreement. Base rent is recognized on a straight line basis over the lease term and Additional Rent is recognized only upon satisfaction of the defined criteria.

### ***Revenue and Cost Recognition of Third-Party Development Consulting Services***

Costs associated with the pursuit of third-party development consulting contracts are expensed as incurred until we have been notified of a contract award or reimbursement is otherwise guaranteed by the customer. At such time, the reimbursable portion of such costs is recorded as a receivable. Development consulting revenues are recognized using the percentage of completion method as determined by construction costs incurred relative to the total estimated construction costs. Costs associated with development consulting services are expensed as incurred. We generally receive a significant percentage of our fees for development consulting services upon closing of the project financing, a portion of the fee over the construction period, and the balance upon substantial completion of construction. Because revenue from these services is recognized for financial reporting purposes utilizing the percentage of completion method, differences occur between amounts received and revenues recognized. Differences also occur between amounts recognized for tax purposes and those recognized from financial reporting purposes. Because, as a REIT, we will be required to distribute 90% of our taxable income, our distribution requirement with respect to our income from third-party services may exceed that reflected as net income for financial reporting purposes from such activities.

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

### ***Student Housing Property Acquisitions***

Land, land improvements, buildings and improvements, furniture, fixtures and equipment are recorded at cost. Buildings and improvements are depreciated over 30 to 40 years, land improvements are depreciated over 15 years and furniture, fixtures and equipment are depreciated over estimated lives ranging from 3 to 7 years. Depreciation is computed using the straight-line method for financial reporting purposes. Property acquisitions initiated subsequent to June 30, 2001 are accounted for utilizing the purchase method in accordance with Statement of Financial Accounting Standards (SFAS) No. 141, *Business Combinations*. Pre-acquisition costs, including legal and professional fees and other third-party costs related directly to the acquisition of the property, are accounted for as part of the purchase price. We have used independent appraisals obtained at the time of the original acquisition by the owners of the properties we are acquiring in our formation transactions, estimates of cash flows and valuation techniques to allocate the purchase price of acquired property between land, land improvements, buildings and improvements, equipment

and other identifiable intangibles such as amounts related to in-place leases.

***Repairs and Maintenance***

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

**Table of Contents****Long Lived Assets    Impairment**

Periodically, management is required to assess whether there are any indicators that our real estate properties may be impaired. A property's value is considered impaired if management's estimate of the aggregate future cash flows (undiscounted and without interest charges) to be generated by the property is less than the carrying value of the property. These estimates of cash flows are based on factors such as expected future operating income, trends and prospects, as well as the effects of demand, competition and other factors. To the extent impairment has occurred, the loss will be measured as the excess of the carrying amount of the property over the fair value of the property, thereby reducing our net income.

**Recently Issued Accounting Pronouncements**

In June 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109* (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The Interpretation also provides guidance on description, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 becomes effective on January 1, 2007. The Trust is currently evaluating the impact of adopting FIN 48 on its consolidated financial position and results of operations.

In September 2006, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 108 (SAB 108), which becomes effective for fiscal years ending after November 15, 2006. SAB 108 provides guidance on the consideration of the effects of prior period misstatements in quantifying current year misstatements for the purpose of a materiality assessment. SAB 108 requires an entity to evaluate the impact of correcting all misstatements, including both the carryover and reversing effects of prior year misstatements, on current year financial statements. If a misstatement is material to the current year financial statements, the prior year financial statements should also be corrected, even though such revision was, and continues to be, immaterial to the prior year financial statements. Correcting prior year financial statements for immaterial errors would not require previously filed reports to be amended. Such correction should be made in the current period filings. The Trust is currently evaluating the impact of adopting SAB 108 on its consolidated financial position and results of operations.

In September 2006, the FASB issued SFAS 157, *Fair Value Measurements*, SFAS 157 does not address what to measure at fair value; instead, it addresses how to measure fair value. SFAS 157 applies (with limited exceptions) to existing standards that require assets or liabilities to be measured at fair value. SFAS 157 establishes a fair value hierarchy, giving the highest priority to quoted prices in active markets and the lower priority in unobservable data and requires new disclosures for assets and liabilities measured at fair value based on their level in the hierarchy. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Trust is currently evaluating the impact of adopting SFAS 157 on its consolidated financial position and results of operations.

**Results of Operations for the Nine Months Ended September 30, 2006 and 2005**

The following table presents the results of operations for Education Realty Trust, Inc. for the nine months ended September 30, 2006 and the combined results of operations for Education Realty Trust, Inc. (post Offering) and the EDR Predecessor (pre Offering) for the nine months ended September 30, 2005 (in thousands):

|                  | Nine months ended September 30, 2006 |          |             |             |           | Nine months ended September 30, 2005(1) |          |             |             |           |
|------------------|--------------------------------------|----------|-------------|-------------|-----------|-----------------------------------------|----------|-------------|-------------|-----------|
|                  | Third-Party                          |          |             |             |           | Third-Party                             |          |             |             |           |
|                  | Student                              | Developm | Third-Party |             |           | Student                                 | Developm | Third-Party |             |           |
|                  | Housing                              | Consult  | Management  |             |           | Housing                                 | Consult  | Management  |             |           |
|                  | Leasing                              | Services | Services    | Adjustments | Total     | Leasing                                 | Services | Services    | Adjustments | Total     |
| <b>Revenues:</b> |                                      |          |             |             |           |                                         |          |             |             |           |
| Student housing  |                                      |          |             |             |           |                                         |          |             |             |           |
| leasing revenue  | \$ 63,421                            | \$       | \$          | \$          | \$ 63,421 | \$ 52,832                               | \$       | \$          | \$          | \$ 52,832 |
| Student housing  |                                      |          |             |             |           |                                         |          |             |             |           |
| food service     |                                      |          |             |             |           |                                         |          |             |             |           |
| revenue          | 2,670                                |          |             |             | 2,670     | 2,603                                   |          |             |             | 2,603     |

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|                                                                                                        |         |       |       |         |         |          |       |       |         |          |
|--------------------------------------------------------------------------------------------------------|---------|-------|-------|---------|---------|----------|-------|-------|---------|----------|
| Other leasing revenue                                                                                  | 10,577  |       |       |         | 10,577  |          |       |       |         |          |
| Third-party development consulting services                                                            |         | 2,283 |       |         | 2,283   |          | 973   |       |         | 973      |
| Third-party management revenue                                                                         |         |       | 2,051 |         | 2,051   |          |       | 1,258 |         | 1,258    |
| Intersegment revenues                                                                                  |         |       | 2,657 | (2,657) |         |          |       | 1,862 | (1,862) |          |
| Operating expense reimbursements                                                                       |         |       |       | 5,891   | 5,891   |          |       |       | 4,209   | 4,209    |
| Total revenues                                                                                         | 76,668  | 2,283 | 4,708 | 3,234   | 86,893  | 55,435   | 973   | 3,120 | 2,347   | 61,875   |
| <b>Operating Expenses:</b>                                                                             |         |       |       |         |         |          |       |       |         |          |
| Student housing leasing operations                                                                     | 32,159  |       |       |         | 32,159  | 27,306   |       |       |         | 27,306   |
| Student housing food service operations                                                                | 2,427   |       |       |         | 2,427   | 2,449    |       |       |         | 2,449    |
| General and administrative                                                                             |         | 1,601 | 3,653 |         | 5,254   |          | 1,413 | 3,055 |         | 4,468    |
| Intersegment expenses                                                                                  | 2,657   |       |       | (2,657) |         | 1,862    |       |       | (1,862) |          |
| Reimbursable operating expenses                                                                        |         |       |       | 5,891   | 5,891   |          |       |       | 4,209   | 4,209    |
| Total operating expenses                                                                               | 37,243  | 1,601 | 3,653 | 3,234   | 45,731  | 31,617   | 1,413 | 3,055 | 2,347   | 38,432   |
| Net operating income (loss)                                                                            | 39,425  | 682   | 1,055 |         | 41,162  | 23,818   | (440) | 65    |         | 23,443   |
| Nonoperating expenses(2)                                                                               | 48,751  | (16)  |       |         | 48,735  | 36,574   | (6)   | (9)   |         | 36,559   |
| Income (loss) before equity in earnings of unconsolidated entities, income taxes and minority interest | (9,326) | 698   | 1,055 |         | (7,573) | (12,756) | (434) | 74    |         | (13,116) |
| Equity in earnings of unconsolidated                                                                   | (14)    | 587   |       |         | 573     |          | 587   |       |         | 587      |

entities

Income  
(loss) before  
taxes and  
minority  
interest(3)

\$ (9,340) \$ 1,285 \$ 1,055 \$ (7,000) \$ (12,756) \$ 153 \$ 74 \$ (12,529)

- (1) The segment information presented for the nine months ended September 30, 2005 represents the combined results of operations for Education Realty Trust, Inc. (post Offering) and EDR Predecessor (pre Offering).
- (2) Nonoperating expenses include interest expense, interest income and exit fees on early payment of debt, amortization of deferred financing costs, depreciation, and amortization of intangibles.
- (3) The following is a reconciliation of the reportable segments' net loss before income taxes and minority interest to the Trust's consolidated net loss before income taxes and minority interest:

|                                                                            | <b>2006</b> | <b>2005</b> |
|----------------------------------------------------------------------------|-------------|-------------|
| Net loss before income taxes and minority interest for reportable segments | \$ (7,000)  | \$ (12,529) |
| Unallocated corporate amounts:                                             |             |             |
| Noncash compensation charge for PIU's and restricted stock                 | (591)       | (4,631)     |
| Other corporate expenses                                                   | (3,979)     | (1,596)     |
| Net loss before income taxes and minority interest                         | \$ (11,570) | \$ (18,756) |

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### Student housing leasing

Overall average physical occupancy and average Revenue per Available Bed ( RevPAB ) for the nine months ended September 30, 2006 and 2005 were as follows:

|                                 | Nine<br>months<br>ended<br>September<br>30, 2006 | Nine<br>months<br>ended<br>September<br>30, 2005 | Difference |
|---------------------------------|--------------------------------------------------|--------------------------------------------------|------------|
| Occupancy                       |                                                  |                                                  |            |
| Physical (1)                    | 92.4%                                            | 91.1%                                            | 1.3%       |
| Economic (2)                    | 89.2%                                            | 88.2%                                            | 1.0%       |
| NarPAB (3)                      | \$ 332                                           | \$ 329                                           | \$ 3       |
| Other income per avail. bed (4) | \$ 24                                            | \$ 27                                            | \$ (3)     |
| RevPAB (5)                      | \$ 356                                           | \$ 356                                           | \$         |
| Operating expense per bed (6)   | \$ 181                                           | \$ 183                                           | \$ (2)     |
| Operating margin                | 49.3%                                            | 48.5%                                            | 0.8%       |
| Design Beds (7)                 | 178,005                                          | 148,852                                          | 29,153     |

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

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

(3) NarPAB represents GAAP net apartment rent for the respective period divided by the sum of the design beds in the portfolio for each of the included months. Does not include food service revenue or other leasing revenue.

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

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

(6) Represents property-level operating expense excluding overhead allocation, depreciation and amortization divided by the sum of the design beds for each of the included months.

(7) Represents the sum of the monthly design beds in the portfolio during the period, excluding Place properties.

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Revenue from student housing leasing was \$76,668 for the nine months ended September 30, 2006. This represents an increase of \$21,233 from the same period in 2005. The 38.3% increase in revenue is attributable to a significant increase in beds by way of acquisition and the addition of other leasing revenue related to the 13 property Place Portfolio lease discussed below. Aggregate design beds for the nine months ended September 30, 2006 increased 29,153 beds or 19.6% over the same period last year to 178,005 beds. At current RevPAB rates this acquisition driven increase in beds represents about \$10,400 of the increased revenue for the nine months ended September 30, 2006. In January 2006 we completed the acquisition of a 13 property portfolio from Place Properties. Simultaneous with the acquisition we entered into a lease agreement under which Place Properties leases and operates the properties. Other leasing revenue related to the lease back contributed \$10,577 of revenue in the first nine months of 2006, including the recognition of Additional Rent, as defined in the lease agreement, of \$274 during the three months ended September 30, 2006.

Operating expenses at our student housing communities increased \$4,853 to \$32,159 for the nine months ended September 30, 2006. Expense growth of approximately \$5,300 is attributable to increased beds by way of acquisition as discussed above. The growth driven increase in expenses was offset by \$480 representing an approximate \$2.7 reduction in expense per bed for the period. Significant improvement in turn costs and lower bad debt expense along with other improvements combined to more than offset higher utility costs for the period. Intersegment expenses, which represent management fees paid to our management company increased almost \$800 as a result of more beds under management and higher revenue.

The net impact of the growth in revenue and expenses noted above was a 65.5% rise in net operating income for the segment to \$39,425 for the nine months ended September 30, 2006. As noted, a majority of the growth came through acquisition and an increase in operating margins, which rose from 43.0% to 51.4% for the segment. The operating margin of our owned and operated properties, which excludes the 13 properties leased to Place Properties, improved from 48.5% to 49.3%.

**Third-party development consulting services**

The following table represents the development consulting projects that were active during the nine months ended September 30, 2006 and 2005:

| Project                                     |           | Beds  | Fee Type                   | Recognized Earnings |       |            |
|---------------------------------------------|-----------|-------|----------------------------|---------------------|-------|------------|
|                                             |           |       |                            | 2006                | 2005  | Difference |
| Slippery Rock University                    | Phase I   | 1,390 | Development fee            | \$1,264             | \$406 | \$ 858     |
| Indiana University of Pennsylvania          |           | 734   | Development fee            | 422                 |       | 422        |
| University of Michigan                      |           | 849   | Development fee            | 459                 |       | 459        |
| Auraria Higher Education System             |           | 685   | Development fee            |                     | 146   | (146)      |
| Calhoun Street                              |           |       | Purchasing fee             |                     | 306   | (306)      |
| University of North Carolina Greensboro     |           | 600   | Construction oversight fee | 45                  |       | 45         |
| University of Louisville                    | Phase III | 359   | Construction oversight fee | 57                  | 13    | 44         |
| University of Alabama Birmingham            |           | 753   | Construction oversight fee | 36                  | 102   | (66)       |
| Third-party development consulting services |           |       |                            | \$2,283             | \$973 | \$1,310    |
| California University of Pennsylvania       | Phase IV  | 447   | Development fee            | \$                  | \$ 65 | \$ (65)    |
|                                             |           | 354   | Development fee            | 225                 |       | \$ 225     |

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|                                                  |     |                 |        |       |       |
|--------------------------------------------------|-----|-----------------|--------|-------|-------|
| California University of<br>Pennsylvania Phase V |     |                 |        |       |       |
| University of North Carolina<br>Greensboro       | 600 | Development fee | 105    |       | 105   |
| Bloomsburg University                            | 407 | Development fee |        | 239   | (239) |
| University of Louisville Phase III               | 359 | Development fee | 124    | 29    | 95    |
| University of Alabama<br>Birmingham              | 753 | Development fee | 133    | 227   | (94)  |
| Other                                            |     | Development fee |        | 27    | (27)  |
| Equity in earnings of<br>unconsolidated entities |     |                 | \$ 587 | \$587 | \$    |

Third-party development consulting services revenue increased by \$1,310 to \$2,283 for the nine months ended September 30, 2006. During the first nine months of 2006 we were engaged in four active development projects representing 3,658 beds and recognized construction oversight fees on an additional 3 projects. During the same period in 2005 we were only in the beginning stages of two projects, recognized \$306 of purchasing fees related to a third project, and recognized construction oversight fees on another two project. The increased volume in development consulting revenue is mainly due to an increase in the number of projects being managed by our development subsidiary (AODC) but also represents a shift in the percentage of new projects AODC contracts directly. In previous years

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the majority of our development services were contracted through joint venture relationships with the profits from those services being recognized through equity in earnings of unconsolidated entities.

Equity in earnings of unconsolidated entities remained flat at \$587 for each of the nine months ended September 30, 2006 and 2005. During both nine month periods there were four projects underway that represented 2,066 and 1,966 beds for 2006 and 2005, respectively.

General and administrative costs in the third-party development consulting services segment increased \$188 to \$1,601 for the nine months ended September 30, 2006. This increase is a result of the higher volume of development projects and increases in staffing and corporate overhead allocated to the segment.

### ***Third-party management services***

Third-party management services revenue increased by \$1,588 to \$4,708 for the nine months ended September 30, 2006. Growth in our owned portfolio period over period contributed to \$795 of the increase by way of intersegment revenue. Aggregate design beds in our owned portfolio for the nine months ended September 30, 2006 were 178,005 which is an increase of 29,153 aggregate beds from the same period in the prior year. Third-party management fee revenue increased \$793 to \$2,051 for the nine months ended September 30, 2006. This increase was primarily the result of the opening of three new managed properties in August and September of 2005 and the addition of a new management contract in September 2005. In addition one development community opened early in May 2006 and our management company subsidiary earned approximately \$100 in preopening management support fees related to two communities while under development. Minor fees received during the nine months of 2006 from two development properties that opened in August 2006 were offset by the loss of one management contract June 2006.

General and administrative costs for our third-party management services segment increased \$598 to \$3,653 for the nine months ended September 30, 2006. The increase reflects incremental salaries and costs related to the additional management contracts and intersegment management revenue volume noted above.

### ***Nonoperating expenses***

Nonoperating expenses increased \$12,176 to \$48,735 for the nine months ended September 30, 2006. The increase is driven by approximately \$9,500 of additional interest expense and \$3,700 of additional depreciation and amortization related mainly to the acquisition of the 13 properties from Place properties in January 2006 and a full nine months of expense in the current period related to acquisitions made during 2005. These increases were partially offset by a \$1,100 decline in amortization of deferred financing costs as a result of prepayment penalties on early retirement of debt that was incurred in the first quarter of 2005. We anticipate continued increases in interest expense in 2006 over 2005 as a result of recent and anticipated acquisition as well as the potential of continued increases in interest rates.

### ***Other corporate expenses***

Other corporate expenses represent general and administrative expenses that are not allocated to the third-party development consulting and third-party management services segments. Intersegment management fees are charged to the student housing leasing segment so it is not allocated any corporate expenses. For the nine months ended September 30, 2006 other corporate expenses were \$3,979, an increase of \$2,383 over the prior year. The increase is a result of approximately \$638 related to the first year costs of implementing the Sarbanes-Oxley Act of 2002 as well as increased payroll and other expenses resulting from changes necessary to appropriately support growth and the requirements of being a public company, including compliance with Sarbanes-Oxley.

Noncash compensation expense for the nine months ended September 30, 2006 was \$591 compared to \$4,631 for the nine months ended September 30, 2005. Noncash compensation includes the amortization of restricted stock awards over their vesting period and the applicable cost of any awards that were immediately vested upon date of grant. The decrease of \$4,040 from 2005 is due to a one-time charge related to our Offering that occurred in January 2005 when fully vested awards were granted.

**Table of Contents****Results of Operations for the Three Months Ended September 30, 2006 and 2005**

The following table presents the results of operations for Education Realty Trust, Inc. for the three months ended September 30, 2006 and 2005 (in thousands):

|                                             | Three months ended September 30, 2006 |                                             |                                 |             |           | Three months ended September 30, 2005 |                                             |                                 |             |           |
|---------------------------------------------|---------------------------------------|---------------------------------------------|---------------------------------|-------------|-----------|---------------------------------------|---------------------------------------------|---------------------------------|-------------|-----------|
|                                             | Student Housing Leasing               | Third-Party Development Consulting Services | Third-Party Management Services | Adjustments | Total     | Student Housing Leasing               | Third-Party Development Consulting Services | Third-Party Management Services | Adjustments | Total     |
| <b>Revenues:</b>                            |                                       |                                             |                                 |             |           |                                       |                                             |                                 |             |           |
| Student housing leasing revenue             | \$ 19,520                             | \$                                          | \$                              | \$          | \$ 19,520 | \$ 20,145                             | \$                                          | \$                              | \$          | \$ 20,145 |
| Student housing food service revenue        | 895                                   |                                             |                                 |             | 895       | 893                                   |                                             |                                 |             | 893       |
| Other leasing revenue                       | 3,709                                 |                                             |                                 |             | 3,709     |                                       |                                             |                                 |             |           |
| Third-party development consulting services |                                       | 856                                         |                                 |             | 856       |                                       | 791                                         |                                 |             | 791       |
| Third-party management revenue              |                                       |                                             | 653                             |             | 653       |                                       |                                             | 511                             |             | 511       |
| Intersegment revenues                       |                                       |                                             | 874                             | (874)       |           |                                       |                                             | 809                             | (809)       |           |
| Operating expense reimbursements            |                                       |                                             |                                 | 2,146       | 2,146     |                                       |                                             |                                 | 1,474       | 1,474     |
| Total revenues                              | 24,124                                | 856                                         | 1,527                           | 1,272       | 27,779    | 21,038                                | 791                                         | 1,320                           | 665         | 23,814    |
| <b>Operating Expenses:</b>                  |                                       |                                             |                                 |             |           |                                       |                                             |                                 |             |           |
| Student housing leasing operations          | 13,422                                |                                             |                                 |             | 13,422    | 13,570                                |                                             |                                 |             | 13,570    |
| Student housing food service operations     | 844                                   |                                             |                                 |             | 844       | 878                                   |                                             |                                 |             | 878       |
| General and administrative                  |                                       | 616                                         | 1,382                           |             | 1,998     |                                       | 693                                         | 1,573                           |             | 2,266     |
| Intersegment expenses                       | 874                                   |                                             |                                 | (874)       |           | 809                                   |                                             |                                 | (809)       |           |
| Reimbursable operating expenses             |                                       |                                             |                                 | 2,146       | 2,146     |                                       |                                             |                                 | 1,474       | 1,474     |
|                                             | 15,140                                | 616                                         | 1,382                           | 1,272       | 18,410    | 15,257                                | 693                                         | 1,573                           | 665         | 18,188    |

Total operating expenses

|                                                                                                        |            |        |        |            |            |        |          |            |
|--------------------------------------------------------------------------------------------------------|------------|--------|--------|------------|------------|--------|----------|------------|
| Net operating income (loss)                                                                            | 8,984      | 240    | 145    | 9,369      | 5,781      | 98     | (253)    | 5,626      |
| Nonoperating expenses(1)                                                                               | 16,579     | (16)   |        | 16,563     | 12,901     | (6)    | (9)      | 12,886     |
| Income (loss) before equity in earnings of unconsolidated entities, income taxes and minority interest | (7,595)    | 256    | 145    | (7,194)    | (7,120)    | 104    | (244)    | (7,260)    |
| Equity in earnings of unconsolidated entities                                                          | (14)       | 162    |        | 148        |            | 332    |          | 332        |
| Income (loss) before taxes and minority interest(2)                                                    | \$ (7,609) | \$ 418 | \$ 145 | \$ (7,046) | \$ (7,120) | \$ 436 | \$ (244) | \$ (6,928) |

(1) Nonoperating expenses include interest expense, interest income and exit fees on early payment of debt, amortization of deferred financing costs, depreciation, and amortization of intangibles.

(2) The following is a reconciliation of the reportable segments' net loss before income taxes and minority interest to the Trust's consolidated net loss before income taxes and minority interest.

|                                                                            | 2006       | 2005       |
|----------------------------------------------------------------------------|------------|------------|
| Net loss before income taxes and minority interest for reportable segments | \$ (7,046) | \$ (6,928) |
| Unallocated corporate amounts:                                             |            |            |
| Noncash compensation charge for PIU's and restricted stock                 | (63)       | (257)      |
| Other corporate expenses                                                   | (1,184)    | (276)      |
| Net loss before income taxes and minority interest                         | \$ (8,293) | \$ (7,461) |

**Table of Contents*****Student housing leasing***

Overall average physical occupancy and average Revenue per Available Bed ( RevPAB ) for the three months ended September 30, 2006 and 2005 were as follows:

|                                 | Three<br>months<br>ended<br>September<br>30,<br>2006 | Three<br>months<br>ended<br>September<br>30,<br>2005 | Difference |
|---------------------------------|------------------------------------------------------|------------------------------------------------------|------------|
| Occupancy                       |                                                      |                                                      |            |
| Physical (1)                    | 92.0%                                                | 92.0%                                                | %          |
| Economic (2)                    | 80.8%                                                | 82.8%                                                | (2.0)%     |
| NarPAB (3)                      | \$ 298                                               | \$ 304                                               | \$ (6)     |
| Other income per avail. bed (4) | \$ 25                                                | \$ 41                                                | \$ (16)    |
| RevPAB (5)                      | \$ 323                                               | \$ 345                                               | \$ (22)    |
| Operating expense per bed (6)   | \$ 222                                               | \$ 232                                               | \$ (10)    |
| Operating margin                | 31.2%                                                | 32.6%                                                | (1.4)%     |
| Design Beds (7)                 | 60,375                                               | 58,503                                               | 1,872      |

- (1) Physical occupancy represents a weighted average of the month end occupancies for the respective period.
- (2) Economic occupancy represents the effective occupancy calculated by taking net apartment rent accounted for on a GAAP basis for the respective period divided by market rent for the respective period.
- (3) NarPAB represents GAAP net apartment rent for the respective period divided by the sum of the design beds in the portfolio for each of the included months. Does not include food service revenue or other leasing revenue.
- (4) Represents other GAAP-based income for the respective period divided by the sum of the design beds in the portfolio for each of the included months. Other income includes service/app fees, late fees, termination fees, parking fees, transfer fees, damage recovery, utility recovery, and other misc.
- (5) Represents total revenue (net apartment rent plus other income) for the respective period divided by the sum of the design beds in the portfolio for each of the included months.
- (6) Represents property-level operating expense excluding overhead allocation, depreciation and amortization divided by the sum of the design beds for each of the included months.
- (7) Represents the sum of the monthly design beds in the portfolio during the period, excluding Place properties.

Revenue from student housing leasing was \$24,124 for the three months ended September 30, 2006. This represents an increase of \$3,086 or 14.7% from the same period in 2005. The majority of the increase is represented by other leasing revenue of \$3,709, related to the leasing of 13 properties to Place Properties in January 2006. This increase in other leasing revenue was partially offset by a \$600 decline in student leasing revenue. The decline in student leasing revenue represents the aggregate of an approximate \$600 reduction in damage billing revenue in 2006 and an approximate \$1,000 reduction due to lease term changes at certain acquired properties that resulted in a slight increase in the vacancy days during the turn period in August 2006. The lease term changes did not impact the annual economic value of the leases, but only impacted the timing of revenue recognition. Both of these declines were minimized by an approximate \$500 increase as a result of higher rates and a \$600 increase driven by acquisition growth that is evidenced by a 1,872 increase in our aggregate design beds quarter over quarter.

Operating expenses at our student housing communities decreased \$117 to \$15,140 for the three months ended September 30, 2006. The additional 1,872 of aggregate beds due to acquisition accounted for an approximate \$415 increase quarter over quarter, while higher intersegment expenses related to those same beds accounted for an increase of \$65. These increases were more than offset by lower costs per bed in the current quarter, including turn costs per bed that improved on a same-community basis from \$140 per bed for the quarter ended September 30, 2005 to \$124 per bed for the same period in 2006.

The net impact of the growth in revenue and decline in expenses noted above was a 55.4% rise in net operating income for the segment to \$8,984 for the three months ended September 30, 2006. As noted a majority of the growth came from the 13 property acquisition from Place Properties in January 2006, which drove operating margins up from 27.5% to 37.2% for the segment. However, operating margins at our owned and operated properties, which excludes the 13 properties leased to Place Properties, was down 140 basis points to 31.2%, lower student housing leasing revenue outweighed the improvement in operating expenses, which went from \$232 per bed for the quarter ended September 30, 2005 to \$222 per bed in the current quarter.

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***Third-party development consulting services***

Third-party development consulting services revenue increased by \$65 to \$856 for the three months ended September 30, 2006. The increase is a result of higher project volume in the third quarter of 2006 compared to 2005. During the third quarter of 2006 we were engaged in three active development projects representing 2,973 beds and recognized construction oversight fees on three additional projects. During the same period in 2005 we were only participating directly in two projects, recognized \$306 of purchasing fees related to a third project and recognized construction oversight fees on two additional projects.

Equity in earnings of unconsolidated entities decreased \$170 to \$162 for the three months ended September 30, 2006. The decline reflects a general shift to providing development consulting services directly to the customer rather than utilizing joint venture relationships. In the third quarter 2005 we had four active projects through joint ventures where as we only had two continuing projects in the third quarter of 2006 and two projects that were completed during the quarter.

General and administrative costs in the third-party development consulting services segment remained relatively flat at \$616 for the three months ended September 30, 2006 compared to \$693 for the same period in 2005.

***Third-party management services***

Third-party management services revenues increased by \$207 to \$1,527 for the three months ended September 30, 2006. Growth in our owned portfolio quarter over quarter contributed to \$65 of the increase by way of intersegment revenue. Aggregate design beds in our owned portfolio for the three months ended September 30, 2006 were 60,375 which is an increase of 1,872 aggregate beds from the same period in the prior year. Third-party management fee revenue increased \$142 to \$653 for the three months ended September 30, 2006. Approximately \$100 of the increase relates to management support fees earned on two development projects during the preopening and preleasing phases of each project. The remaining increase is a result of a full quarter of revenue in 2006 on three new managed properties that opened in August and September of 2005, the addition of a new management contract in September 2005, the opening of a development community in May 2006, and the opening of two additional development properties in August of 2006 offset by the loss of one management contract in June 2006.

General and administrative costs for our third-party management services segment declined \$191 to \$1,382 for the three months ended September 30, 2006 as a result of lower travel and other costs in the period.

***Nonoperating expenses***

Nonoperating expenses increased \$3,677 to \$16,563 for the three months ended September 30, 2006. The increase is driven by approximately \$2,800 of additional interest expense and \$950 of additional depreciation and amortization related mainly to the acquisition of the 13 properties from Place Properties in January 2006. We anticipate continued increases in interest expense in 2006 over 2005 as a result of recent and anticipated acquisitions as well as the potential of continued increases in interest rates.

***Other corporate expenses***

Other corporate expenses for the three months ended September 30, 2006 were \$1,184 compared to \$276 for the same period in 2005. The increase is a result of approximately \$200 related to the first year costs of implementing Sarbanes-Oxley, about \$310 of additional payroll costs, \$70 of additional depreciation and amortization as well as increased other expenses resulting from changes necessary to appropriately support growth and the requirements of being a public company. Noncash compensation expense decreased \$194 to \$63 for the three months ended September 30, 2006 primarily due to the timing of awards.

**Funds from Operations**

As defined by the National Association of Real Estate Investment Trusts ( NAREIT ), funds from operations ( FFO ) represents net income (loss) computed in accordance with GAAP, excluding gains (or losses) from sales of property, plus real estate related depreciation and amortization and after adjustments for unconsolidated partnerships and joint ventures. Adjustments for unconsolidated partnerships and joint ventures will be calculated to reflect funds from operations on the same basis. We present FFO because we consider it an important supplemental measure of our operating performance and believe it is frequently used by securities analysts, investors and other interested parties in the evaluation of REITs, many of which present FFO when reporting their results. FFO is intended to exclude GAAP historical cost depreciation and amortization of real estate and related assets, which assumes that the value of real

estate diminishes ratably over time. Historically, however, real estate values have risen or fallen with market conditions. Because FFO excludes depreciation and amortization unique to real estate, gains and losses from property dispositions and extraordinary items, it provides a performance measure that, when compared year over year, reflects the impact to operations from trends in occupancy rates, rental rates, operating costs, development activities and interest costs, providing perspective not immediately apparent from net income.

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

The following table presents a reconciliation of our FFO to our net loss for the three and nine months ended September 30, 2006 and 2005 (in thousands).

|                                                                                      | <b>Three Months Ended<br/>September 30,</b> |             | <b>Nine Months Ended<br/>September 30,</b> |             |
|--------------------------------------------------------------------------------------|---------------------------------------------|-------------|--------------------------------------------|-------------|
|                                                                                      | <b>2006</b>                                 | <b>2005</b> | <b>2006</b>                                | <b>2005</b> |
| Net loss                                                                             | \$ (8,189)                                  | \$ (7,184)  | \$ (11,483)                                | \$ (17,559) |
| Plus student housing property depreciation and amortization of lease intangibles     | 9,111                                       | 8,159       | 27,179                                     | 23,438      |
| Plus equity portion of real estate depreciation and amortization on equity investees | 5                                           |             | 5                                          |             |
| Plus minority interest expense/(benefit)                                             | (485)                                       | (617)       | (550)                                      | (1,384)     |
| Funds from operations                                                                | \$ 442                                      | \$ 358      | \$ 15,151                                  | \$ 4,495    |

**Liquidity and Capital Resources*****Revolving Credit Facility and Other Short Term Loans***

On March 31, 2006 the Operating Partnership amended and restated the revolving credit facility (the "Amended Revolver") dated January 31, 2005 in the amount of \$100 million and entered into a senior unsecured term loan facility (the "Term Loan") in the amount of \$50,000. The Trust serves as the guarantor for any funds borrowed by the Operating Partnership under the Amended Revolver and the Term Loan. Additionally, the Amended Revolver is secured by a cross collateralized, first mortgage lien on all mortgaged properties. The Term Loan is not directly secured by a lien but has the benefit of a negative pledge on the equity interest in the mortgaged properties. The Amended Revolver and Term Loan have a term of three years and mature on March 31, 2009, provided that the Operating Partnership may extend the maturity date for one year subject to certain conditions. At September 30, 2006, there was \$20,800 outstanding under the Amended Revolver and \$50,000 outstanding under the Term Loan. The Term Loan is interest only; hence, the entire outstanding balance of \$50,000 is due on the maturity date.

Availability under the Operating Partnership's Amended Revolver is limited to a borrowing base availability equal to the lesser of (i) 65% of the property asset value of the properties securing the facility and (ii) the loan amount which would produce a debt service coverage ratio of no less than 1.30, with debt service based on the greater of two different sets of conditions specified in the amended credit agreement.

The Operating Partnership's Amended Revolver and Term Loan contain customary affirmative and negative covenants and do contain 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.

The Trust is prohibited from making distributions that exceed \$1.20 per share unless prior to and after giving effect to such action the total leverage ratio is less than or equal to 60%. The amount of restricted payments permitted may be increased as long as either of the following conditions is met: (a) after giving effect to the increased Restricted Payment, the Total Leverage Ratio shall remain less than or equal to 60%; or (b) the increased Restricted Payment, when considered along with all other restricted payments for the last 3 quarters, does not exceed (i) 100% of Funds

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From Operations for the applicable period through and including December 31, 2006, and (ii) 95% of Funds From Operations for the applicable period thereafter.

The interest rate per annum applicable to the Amended Revolver is, at the Operating Partnership's option, equal to a base rate or LIBOR plus an applicable margin based upon our leverage. The interest rate per annum applicable to the Term Loan is, at the Operating Partnership's option, equal to a base rate plus 1.25% or LIBOR plus 2.75%.

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

At September 30, 2006 we had \$3,900 of cash, a decrease of approximately \$57,762 from December 31, 2005. This decrease is a result of funding the purchase of the 13 property portfolio from Place Properties in January 2006. In addition to the decline in cash balances we added approximately \$169,460 of debt during the first nine months of 2006 due to the assumption of \$98,660 of mortgage debt in the Place Properties acquisition as well as \$70,800 drawn on our line of credit and term loan to completely fund the Place Properties acquisition, our June 15th acquisition of The Players Club community in Statesboro, GA, and certain working capital needs.

Our current liquidity needs include funds for distributions to our stockholders, including those required to maintain our REIT status and satisfy our current distribution policy, funds for capital expenditures, funds for debt repayment and, potentially, funds for new property acquisitions. We expect to meet our short-term liquidity requirements generally through net cash provided by operations with the exception of distributions which for the remainder of the year are anticipated to slightly outpace funds from operations. We expect our long-term liquidity requirements to be satisfied through cash generated by operations and external sources of debt and equity capital, including public capital markets as well as private sources of capital. To the extent that we are unable to maintain our revolving credit facility or an equivalent source of debt financing, we will be more reliant upon the public and private capital markets to meet our long-term liquidity needs.

During the third quarter the SEC declared effective our newly established dividend reinvestment and direct stock purchase plan. The plan allows existing investors to reinvest dividends and allows both existing and new investors to purchase shares of EDR directly from the company at a discount. The plan provides us with another avenue to quickly and continually raise smaller amounts of capital.

Based on our closing share price of \$14.76 on September 30, 2006 our total enterprise value was \$902,318. With total debt outstanding on September 30, 2006 of \$493,526 our current debt to total enterprise value was 54.7%. We believe our current capital structure and current FFO targets along with the \$79,200 remaining availability under our Amended Revolver leaves us with sufficient liquidity and access to financing to fund current working capital needs and make future student housing investments. Current market conditions and rising interest rates are expected to make additional capital more expensive for us and could impact our access to the capital markets. There can be no assurance that we will be able to obtain financing under satisfactory conditions or that we will make any investments in additional properties.

We intend to invest in additional properties only as suitable opportunities arise. In the short term, we intend to fund acquisitions with working capital and borrowings under our \$100 million revolving credit facility. We intend to finance property acquisitions over the longer term with the proceeds from additional issuances of common or preferred stock, debt financing and issuances of units of our Operating Partnership.

We anticipate that our existing working capital and cash from operations will be adequate to meet our liquidity requirements for at least the next three months.

### ***Predevelopment expenditures***

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

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

Our long-term liquidity requirements consists primarily of funds necessary to pay scheduled debt maturities, renovations, expansion and other non-recurring capital expenditures that need to be made periodically to our properties. We expect to meet these needs through existing working capital, cash provided by operations, additional borrowings under our Amended Revolver, and the issuance of equity instruments, including common stock, or

additional or replacement debt, if market conditions permit. We believe these sources of capital will be sufficient to provide for our long-term capital needs.

Our Amended Revolver and Term Loan are material sources to satisfy our long-term liquidity requirements. As such compliance with their financial and operating debt covenants is material to our liquidity. Non-compliance with the covenants would have a material adverse effect on our financial condition and liquidity.

**Table of Contents****Contractual obligations**

The following table summarizes our contractual obligations as of September 30, 2006:

|                                     | Less<br>than<br>1 Year | 1-3<br>Years | 3-5<br>Years<br>(In thousands) | After 5<br>Years | Total      |
|-------------------------------------|------------------------|--------------|--------------------------------|------------------|------------|
| <b>Contractual Obligations:</b>     |                        |              |                                |                  |            |
| Long-Term Debt Obligations(1)       | \$ 21,901              | \$ 421,688   | \$ 1,835                       | \$ 48,102        | \$ 493,526 |
| Contractual Interest Obligations(2) | 6,479                  | 67,080       | 6,373                          | 2,454            | 82,386     |
| Operating Lease Obligations(3)      | 125                    | 1,783        | 1,510                          |                  | 3,418      |
| Capital Reserve Obligations(4)      | 1,646                  | 3,032        | 1,302                          | 1,170            | 7,150      |
| Total                               | \$ 30,151              | \$ 493,583   | \$ 11,020                      | \$ 51,726        | \$ 586,480 |

(1) Includes required monthly principal amortization and amounts due at maturity on first mortgage debt secured by student housing properties and principal amortization on the Amended Revolver and the Term Loan. The first mortgage debt does not include \$2,454 of unamortized debt premium.

(2) Includes contractual interest payments.

(3) Includes future minimum lease commitments under operating lease obligations.

(4) Includes future annual contributions to the capital reserve as required by certain mortgage debt.

At September 30, 2006, the outstanding mortgage debt had a weighted average interest rate of 5.85% and carried an average term to maturity of 2.9 years.

In addition to mortgage debt we had \$50,000 outstanding on a three year variable rate term loan and \$20,800 outstanding on the Amended Revolver. The average interest rate on the term loan and line of credit at September 30, 2006 was 7.83%.

As of September 30, 2006, thirteen of our properties were unencumbered by mortgage debt. Seven of these thirteen properties have, however, been pledged as collateral against any borrowing under our \$100,000 credit facility.

**Distributions**

We are required to distribute 90% of our REIT taxable income (excluding capital gains) on an annual basis in order to qualify as a REIT for federal income tax purposes. Accordingly, we intend to make, but are not contractually bound to make, regular quarterly distributions to holders of our common stock. All such distributions are at the discretion of our board of directors. We may be required to use borrowings under our revolving credit facility, if necessary, to meet REIT distribution requirements and maintain our REIT status. We consider market factors and our performance in addition to REIT requirements in determining distribution levels.

On October 10, 2006 our board of directors declared a third quarter distribution of \$0.205 per share of common stock for the quarter ending on September 30, 2006. The distribution is payable on November 7, 2006 to stockholders of record at the close of business on October 24, 2006.

**Off-Balance Sheet Arrangements**

On May 10, 2006, the Operating Partnership guaranteed \$23,200 of construction debt held by University Village-Greensboro LLC in order to receive a 25% ownership stake in the venture with College Park Apartments. The construction debt is expected to be refinanced in September of 2008 after construction is complete and the student housing community is occupied. The Operating Partnership will not guarantee the debt after the construction loan is refinanced.

**Inflation**

Our student housing leases typically do not have terms that extend beyond 12 months. Accordingly, although on a short-term basis we would be required to bear the impact of rising costs resulting from inflation, we have the opportunity to raise rental rates at least annually to offset such rising costs. However, our ability to raise rental rates may be limited by a weak economic environment, increased competition from new student housing in our primary markets or a reduction in student enrollment at our principal universities.

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### **Recent Developments**

On October 10, 2006 our board of directors declared a third quarter distribution of \$0.205 per share of common stock for the quarter ending on September 30, 2006. The distribution is payable on November 7, 2006 to stockholders of record at the close of business on October 24, 2006.

On October 16, 2006 the Trust issued 54,083 shares of common stock under the direct stock purchase and dividend reinvestment plan. The common stock was issued at a price of \$14.7925 per share.

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

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

For fixed rate debt, interest rate changes affect the fair market value but do not impact net income to common shareholders or cash flows. Conversely, for floating rate debt, interest changes generally do not affect the fair market value but do impact net income to common stockholders and cash flows, assuming other factors are held constant. At September 30, 2006 we had fixed rate debt of \$422,726. Holding other variables constant a 100 basis point increase in interest rates would cause an \$10,800 decline in the fair value for our fixed rate debt. Conversely, a 100 basis point decrease in interest rates would cause an \$11,272 increase in the fair value of our fixed rate debt. At September 30, 2006, all of the outstanding principal amounts of our mortgage notes payable on the properties we own have fixed interest rates with a weighted average rate of 5.85% and an average term to maturity of 2.9 years.

At September 30, 2006, we had a \$50,000 variable rate term loan and \$20,800 drawn on the Amended Revolver. The interest rate per annum applicable to the Amended Revolver is, at the Operating Partnership's option, equal to a base rate or LIBOR plus an applicable margin based upon our leverage. The interest rate per annum applicable to the term loan is, at the Operating Partnership's option, equal to a base rate plus 1.25% or LIBOR plus 2.75%. For the three and nine months ended September 30, 2006, the term loan had average interest rates of 7.83% and 7.38%, respectively. Holding other variables constant a 100 basis point increase in interest rates would cause a \$708 decrease annually in net income available to our common stockholders and a 100 basis point decrease in interest rates would cause a \$708 increase annually in net income available to our common stockholders.

Approximately 86% of the Trust's outstanding debt was subject to fixed rates at September 30, 2006. We may in the future use derivative financial instruments to manage, or hedge, interest rate risks related to such variable rate borrowings. We do not, and do not expect to, use derivatives for trading or speculative purposes, and we expect to enter into contracts only with major financial institutions.

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

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

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

Our management, with the participation of our principal executive officer and financial officers, has evaluated the effectiveness of the design and operation of the Trust's disclosure controls and procedures pursuant to Rule 13a-15(e) and 15d-15(e) of the Exchange Act. Based on their evaluation as of September 30, 2006, our Chief Executive Officer and Chief Financial Officer have concluded that the Trust's disclosure controls and procedures are effective in timely alerting them to material information relating to the Company that is required to be included in the Trust's Exchange Act filings.

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

During the period covered by this quarterly report on Form 10-Q, there have not been any changes to our internal control over financial reporting that have materially affected, or are reasonably likely to affect, our internal control

over financial reporting.

In connection with the requirements of Section 404 of the Sarbanes Oxley Act of 2002, we are in the process of reviewing, documenting and testing our systems of internal control over financial reporting in order to provide the basis for our evaluation and report on these systems as of the end of our fiscal year.

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**PART II  
OTHER INFORMATION**

**Item 1. Legal Proceedings**

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

**Item 1A. Risk factors**

The discussion of the Trust's business and operations should be read together with the risk factors contained in Item 1A of our annual report on Form 10-K for the year ended December 31, 2005, which describes various risks and uncertainties to which we are or may be subject. These risks and uncertainties have the potential to affect the Trust's business, financial condition, results of operations, cash flows and prospects in a material adverse manner. As of September 30, 2006, there have been no material changes to the risk factors set forth in the Trust's annual report for the year ended December 31, 2005.

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

During the three months ended September 30, 2006, we issued 2,000 restricted shares, which vested immediately upon issue, to our independent board members and 5,000 profits interest units to various employees of the Trust at the discretion of our Board. The issuance of such shares was made in reliance upon an exemption from registration under section 4(2) of the Securities Act.

**Item 3. Defaults upon Senior Securities.**

None.

**Item 4. Submission of Matters to a Vote of Security Holders.**

None.

**Item 5. Other Information.**

None.

**Item 6. Exhibits.**

The exhibits listed on the accompanying Exhibit Index are filed or incorporated by reference (as stated therein) as part of this Quarterly Report on Form 10-Q.

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**SIGNATURES**

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

**EDUCATION REALTY TRUST, INC.**

Date: November 13, 2006

By /s/ Paul O. Bower  
*Paul O. Bower*  
President, Chief Executive Officer and  
Chairman of the Board of Directors  
(Principal Executive Officer)

Date: November 13, 2006

By /s/ Randall H. Brown  
*Randall H. Brown*  
Executive Vice President, Chief Financial  
Officer, Treasurer and Secretary  
(Principal Financial Officer)

Date: November 13, 2006

By /s/ J. Drew Koester  
*J. Drew Koester*  
Vice President and Chief Accounting  
Officer  
(Principal Accounting Officer)

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**EXHIBIT INDEX**

|               |                                                                                                                                                                                                                                                                                                                                                                                                                      |
|---------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 3.1           | Second Articles of Amendment and Restatement of Education Realty Trust, Inc. (Incorporated by reference to Exhibit 3.1 to the Company's Amendment No. 2 to its Registration Statement on Form S-11 (File No. 333-1192364), filed on December 10, 2004.)                                                                                                                                                              |
| 3.2           | Bylaws of Education Realty Trust, Inc. (Incorporated by reference to Exhibit 3.2 to the Company's Registration Statement on Form S-11 (File No. 333-119264), filed on September 24, 2004.)                                                                                                                                                                                                                           |
| 4.1           | Form of Certificate for Common Stock of Education Realty Trust, Inc. (Incorporated by reference to Exhibit 4.1 to the Company's Amendment No. 5 to its Registration Statement on Form S-11 (File No. 333-1192364), filed on January 24, 2005.)                                                                                                                                                                       |
| 4.2           | Form of Education Realty Trust, Inc. Common Stock Purchase Warrant dated January 31, 2005, issued to JPI Investment Company, L.P. (Incorporated by reference to Exhibit 4.2 to the Company's Registration Statement on Form S-11 (File No. 333-119264), filed on September 24, 2004.)                                                                                                                                |
| 4.3           | Form of Registration Rights Agreement dated January 31, 2005, by and among Education Realty Trust, Inc., Education Realty Operating Partnership, LP, JPI Investment Company, L.P. and the unit holders whose names are set forth on the signature pages thereto. (Incorporated by reference to Exhibit 4.3 to the Company's Registration Statement on Form S-11 (File No. 333-119264), filed on September 24, 2004.) |
| 10.1**        | Form of Restricted Stock Award Agreement (Filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on August 17, 2006 and incorporated herein by reference).                                                                                                                                                                                                                                       |
| Exhibit 31.1  | Certification of Principal Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act, as amended.                                                                                                                                                                                                                                                                                                  |
| Exhibit 31.2  | Certification of Principal Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act, as amended.                                                                                                                                                                                                                                                                                                  |
| Exhibit 32.1* | Section 906 Certification of Chief Executive Officer                                                                                                                                                                                                                                                                                                                                                                 |
| Exhibit 32.2* | Section 906 Certification of Chief Financial Officer                                                                                                                                                                                                                                                                                                                                                                 |
| *             | In accordance with Release No. 34-47986, this Exhibit is hereby furnished to the SEC as an accompanying document and is not deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934 or otherwise subject to the liabilities of that Section, nor shall it be deemed incorporated by reference into any filing under the Securities Act of 1933.                                               |
| **            | Management contract or compensatory plan or arrangement.                                                                                                                                                                                                                                                                                                                                                             |