

Education Realty Trust, Inc.
Form 10-Q
May 15, 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 March 31, 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 May 12, 2006, the latest practicable date, the Registrant had outstanding 26,411,000 shares of common stock, \$.01 par value per share.

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FORM 10-Q
Quarter Ended March 31, 2006
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**EDUCATION REALTY TRUST, INC. AND
SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS**
(Amounts in thousands, except share and per share data)

	March 31, 2006	December 31, 2005
	(unaudited)	
Assets		
Student housing properties, net	\$ 814,145	\$ 620,305
Corporate office furniture, net	933	991
Cash and cash equivalents	4,311	61,662
Restricted cash	10,004	6,738
Student contracts receivable, net	262	470
Receivable from affiliate	61	
Management fee receivable from third party	272	552
Goodwill and other intangibles, net	3,400	3,546
Other assets	8,105	9,785
Total assets	\$ 841,493	\$ 704,049
Liabilities and stockholders equity		
Liabilities:		
Mortgage loans, net of unamortized premium/discount	\$ 426,472	\$ 328,335
Other long term debt	50,000	
Accounts payable	626	2,075
Accrued expenses	8,289	7,295
Accounts payable affiliate		225
Deferred revenue	6,079	7,660
Total liabilities	491,466	345,590
Minority interest	28,157	27,926
Commitments and contingencies		
Stockholders equity:		
Common stock, \$.01 par value, 200,000,000 shares authorized, 26,272,889 and 26,263,889 shares issued and outstanding as of March 31, 2006 and December 31, 2005, respectively	263	263

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Preferred shares, \$0.01 par value, 50,000,000 shares authorized, no shares issued and outstanding		
Additional paid-in capital	343,781	351,664
Loan to unitholder	(5,996)	(5,996)
Warrants	375	375
Accumulated deficit	(16,553)	(15,773)
Total stockholders' equity	321,870	330,533
Total liabilities and stockholders' equity	\$ 841,493	\$ 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)

	Education Realty Trust, Inc. Consolidated		EDR Predecessor Combined
	Three months ended March 31, 2006 (unaudited)	January 31 through March 31, 2005 (unaudited)	January 1 through January 30, 2005
Revenues:			
Student housing leasing revenue	\$ 22,534	\$ 12,088	\$ 1,503
Student housing food service revenue	968	588	269
Other leasing revenue	3,434		
Third-party development services	555	9	
Third-party management services	699	289	103
Operating expense reimbursements	1,795	686	671
Total revenues	29,985	13,660	2,546
Operating expenses:			
Student housing leasing operations	9,289	4,903	524
Student housing food service operations	859	520	255
General and administrative	2,980	5,177	367
Depreciation and amortization	9,153	5,759	260
Reimbursable operating expenses	1,795	686	671
Total operating expenses	24,076	17,045	2,077
Operating income (loss)	5,909	(3,385)	469
Nonoperating expenses:			
Interest expense	6,870	2,577	479
Exit fees on early repayment of mortgages		1,084	
Amortization of deferred financing costs	274	116	
Interest income	(209)	(279)	
Total nonoperating expenses	6,935	3,498	479

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Loss before equity in earnings of unconsolidated entities, income taxes and minority interest	(1,026)	(6,883)	(10)
Equity in earnings of unconsolidated entities	283	71	27
Income (loss) before income taxes and minority interest	(743)	(6,812)	17
Income tax benefit	(104)	(66)	
Net income (loss) before minority interest	(639)	(6,746)	17
Minority interest	141	(431)	
Net income (loss)	\$ (780)	\$ (6,315)	\$ 17
Earnings per share information:			
Loss per share basic and diluted	\$ (0.03)	\$ (0.29)	
Weighted average common shares outstanding- basic and diluted	26,268,389	21,853,599	
Distributions per common share	\$.2975	\$.19	

See accompanying notes to the 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)

	Education Realty Trust, Inc. Consolidated		EDR Predecessor Combined January 1 through
	Three months ended March 31, 2006 (Unaudited)	January 31 through March 31, 2005 (Unaudited)	January 30, 2005
Operating activities:			
Net income (loss)	\$ (780)	\$ (6,315)	\$ 17
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	9,153	5,759	246
Deferred tax (benefit) expense	149		
Loss on disposal of assets	12		
Amortization of deferred financing costs	274	116	14
Amortization of unamortized debt premiums/discounts	(121)	3	
Noncash compensation expense related to PIUs and restricted stock	320	4,155	
Equity in earnings of unconsolidated entities	(283)	(71)	(27)
Minority interest	141	(431)	
Change in operating assets and liabilities (net of acquisitions)	(3,995)	(4,135)	(91)
 Net cash provided by (used in) operating activities	 4,870	 (919)	 158
Investing activities:			
Property acquisitions, net of cash acquired	(100,384)	(147,658)	(25)
Deferred acquisition costs and earnest money deposits		(350)	
Purchase of corporate furniture and fixtures	(18)	(841)	
Restricted cash	(890)	(1,041)	(2,348)
Investment in student housing properties	(612)	(131)	
 Net cash used in investing activities	 (101,904)	 (150,021)	 (2,373)
Financing activities:			
Payment of mortgage notes	(403)	(114,916)	(98)

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Borrowings of long-term debt	50,000		
Debt issuance costs	(1,302)	(2,231)	
Repayment of line of credit, net		(502)	
Loan to unitholder		(5,996)	
Proceeds from Offering		349,600	
Payment of offering costs	(110)	(26,963)	
Dividends and distributions paid	(8,502)		
Repayment of notes payable affiliate		(485)	
Net cash provided by (used in) financing activities	39,683	198,507	(98)
Net increase (decrease) in cash and cash equivalents	(57,351)	47,567	(2,313)
Cash and cash equivalents, beginning of period	61,662	1	2,883
Cash and cash equivalents, end of period	\$ 4,311	\$ 47,568	\$ 570
Supplemental disclosure of cash flow information:			
Interest paid	\$ 6,438	\$ 2,545	\$ 471
Income taxes paid	\$ 310	\$	\$
Supplemental disclosure of noncash activities:			
Prepaid offering costs charged against equity	\$	\$ 2,218	
Prepaid acquisition costs	4,718		
Units issued in connection with acquisitions	500	26,340	
Warrants issued		375	
Debt assumed in property acquisitions net of premium	98,660	402,306	

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.

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.

Table of Contents**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 \$320.4 million, after underwriting discounts and offering expenses of approximately \$29.2 million. 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 \$36.5 million in cash, the issuance of \$18.3 million in Operating Partnership units and the assumption of \$81.5 million 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 million, after offering expenses of approximately \$3 million. 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 did not have material operating activity during the period prior to the Offering and therefore the operating results for the period January 1 through January 30, 2005 are not presented.

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. Changes in restricted cash balances have been presented as investing activities in the accompanying statement of cash flows and the prior period has been presented in the same manner. These amounts were previously segregated between investing and operating activities depending on their nature. The changes in classification resulted in a decrease in investing activities of \$1,041 with a corresponding increase in operating activities for the period ended March 31, 2005. Additionally, 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 \$407 for the period ended March 31, 2005.

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.

Use of estimates

The preparation of financial statements in accordance with GAAP requires making to make 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.

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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 three to seven 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 March 31, 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.

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.

Table of Contents*Income taxes*

The Trust has elected to be taxed as a real estate investment trust (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 March 31, 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	1,414
University Towers Operating Partnership units	270
Restricted Stock (unvested shares)	138
Profits Interest Units	258
 Total potentially dilutive securities	 2,080

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.

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 and EDR Predecessor offer parking lot rentals to the tenants. The related revenues are recognized on a straight-line basis over the term of the related agreement.

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.

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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*.