

Education Realty Trust, Inc.  
Form 10-K  
March 15, 2007

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
Form 10-K**

(Mark One)

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

**For the fiscal year ended December 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**

**Securities registered pursuant to section 12(b) of the Act:**

**Title of class**

**Name of exchange on which registered**

Common Stock, \$.01 par value per share

New York Stock Exchange

**Securities registered pursuant to section 12(g) of the Act:**

**None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes  No

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 twelve 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

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

As of June 30, 2006 the aggregate market value of the registrants common stock held by non-affiliates of the registrant was \$439,800, based on the closing sale price as reported on the New York Stock Exchange.

As of March 9, 2007, the Registrant had 27,386,537 shares of common stock outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

The Registrant incorporates by reference portions of its Definitive Proxy Statement for the 2007 Annual Meeting of Stockholders into Part III of this Form 10-K to the extent stated herein.

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**EDUCATION REALTY TRUST, INC.**  
**Form 10-K**  
**Year Ended December 31, 2006**

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**FORWARD-LOOKING STATEMENTS**

This Annual Report on Form 10-K contains forward-looking statements, including discussion and analysis of the financial condition of Education Realty Trust, Inc., our anticipated capital expenditures required to complete projects, amounts of anticipated cash distributions to our stockholders in the future and other matters. These forward-looking statements are not historical facts but are the intent, belief or current expectations of our management based on their knowledge and understanding of the business and industry. Words such as anticipates, expects, intends, plans, believes, seeks, estimates and variations of these words and similar expressions are intended to identify forward-looking statements. These statements are not guarantees of future performance and are subject to risks, uncertainties and other factors, some of which are beyond our control, are difficult to predict and could cause actual results to differ materially from those expressed or forecasted in the forward-looking statements.

Forward-looking statements that were true at the time made may ultimately prove to be incorrect or false. You are cautioned to not place undue reliance on forward-looking statements, which reflect our management's view only as of the date of this Annual Report. We undertake no obligation to update or revise forward-looking statements to reflect changed assumptions, the occurrence of unanticipated events or changes to future operating results. Factors that could cause actual results to differ materially from any forward-looking statements made in this Annual Report include changes in general economic conditions, changes in real estate conditions, construction costs that may exceed estimates, construction delays, increases in interest rates, lease-up risks, inability to obtain new tenants upon the expiration of existing leases, and the potential need to fund tenant improvements or other capital expenditures out of operating cash flow. The forward-looking statements should be read in light of these factors and the factors identified in Item 1A Risk Factors below.

**PART I**

**Item 1. Business.**

**(Dollars in thousands, except selected property information and share data)**

**Our Company**

Education Realty Trust, Inc., which we refer to as EDR or the Trust, is a self-managed and self-advised real estate investment trust, or REIT, organized in July 2004 to acquire, own and manage high quality student housing communities located near university campuses. We were formed to continue and expand upon the student housing business of Allen & O Hara, Inc., or the EDR Predecessor, a company with over 40 years of experience as an owner, manager and developer of student housing. As of December 31, 2006, we own 40 student housing communities located in 17 states containing 26,019 beds in 7,953 apartment units located near 33 universities. As of December 31, 2006, we provide third-party management services for 17 student housing communities located in 9 states containing 9,193 beds in 3,017 apartment units at 13 universities. We also provide third-party development consulting services on student housing development projects mostly for universities.

**Initial Public Offering and Formation Transactions**

On January 31, 2005, or the Closing Date, we sold 21,850,000 shares of our common stock at an offering price of \$16.00 per share, including the sale of 2,850,000 shares in connection with the full exercise of the over-allotment option by the underwriters of our initial public offering, or the Offering. Simultaneous with the Offering, we completed our formation transactions, which included the contribution of the student housing business of the EDR Predecessor and its subsidiaries, purchase of the related minority interests in the EDR Predecessor and its subsidiaries and the acquisition of 14 student housing communities previously owned by JPI Investment Company, L.P. and its affiliates, or JPI. The net proceeds of the Offering after expenses were approximately \$320,400.

Following the closing of our Offering and our formation transactions, substantially all of our assets are held by, and we have conducted substantially all of our activities through Education Realty Operating Partnership, LP, our Operating Partnership, and its wholly owned subsidiaries, Allen & O Hara Education Services, Inc., which we refer to as our Management Company and Allen &

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O Hara Development Company, LLC, which we refer to as our Development Company. The majority of our operating expenses are borne by our Operating Partnership, our Management Company or our Development Company, as the case may be.

We are the sole general partner of our Operating Partnership. As a result, our board of directors effectively directs all of our Operating Partnership's affairs. We own 95.8% of the outstanding partnership units of our Operating Partnership, and 3.3% of the partnership units of our Operating Partnership are held by the former owners of our initial properties and assets including members of our management team. Some of our officers also own an indirect interest in our Operating Partnership, which we refer to as profits interest units, which is held through ownership of units in Education Realty Limited Partner, LLC, a Delaware limited liability company controlled by us and that holds 0.9% of the aggregate interests in our Operating Partnership.

Since the Closing Date, University Towers Operating Partnership, LP, or the University Towers Partnership, which is our affiliate, has held, owned and operated our University Towers property located in Raleigh, North Carolina. We own 67% of the units in the University Towers Partnership, and 33% of the University Towers Partnership is held by the former owners of our initial properties and assets including members of our management team.

### **REIT Status and Taxable REIT Subsidiary**

We have elected to be taxed as a real estate investment trust, or REIT, for federal income tax purposes. With the exception of income from our taxable REIT subsidiary or TRS, income earned under the REIT is not subject to income taxes. In order to qualify as a REIT, a specified percentage of our gross income must be derived from real property sources, which would generally exclude our income from providing development and management services to third parties as well as our income from certain services afforded to our student-tenants. In order to avoid realizing such income in a manner that would adversely affect our ability to qualify as a REIT, we provide some services through our Management Company and our Development Company, with our Management Company electing, together with us, to be treated as our TRS. Our Management Company is wholly owned and controlled by our Operating Partnership, and our Management Company wholly owns our Development Company. Our Development Company is a disregarded entity for federal income tax purposes and all assets owned and earned by our Development Company are deemed to be owned and earned by our Management Company.

### **Business and Growth Strategy**

Our primary business objectives are to maximize cash flow available for distribution to our stockholders, and to achieve sustainable long-term growth in cash flow per share in order to maximize long-term stockholder value. We intend to achieve these objectives by (i) acquiring student housing communities nationwide that meet our focused investment criteria, (ii) maximizing revenues from operations of our owned properties through proactive and goal-oriented property management strategies, (iii) building our third-party business of management services and development consulting services and (iv) selectively developing properties for our own account.

### **Acquisition Strategy**

We seek to acquire high quality, well-designed and well-located properties, with a focus on off-campus garden-style communities with modern floor plans and amenities. Our ideal acquisition targets generally are located in markets that have stable or increasing student populations and an insufficient supply of student housing. We also seek to acquire investments in student housing communities that possess sound market fundamentals but are under-performing and would benefit from renovation and/or improved property management. We consider the following property and market factors to identify potential property acquisitions:

campus reputation;

competitive admissions criteria;

limited number of on-campus beds and limited plans for expansion;

distance of property from campus;

property unit mix;

competition;

significant out-of-state enrollment;

operating performance;

potential for improved management;

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ownership and capital structure;

presence of desired amenities;

maintenance of the property;

access to a university-sponsored or public transportation line; and

parking availability.

After we identify a potential student housing acquisition, a due diligence team consisting of in-house personnel and third parties, such as outside legal counsel, environmental consultants, structural engineers, and investment bankers, conducts detailed due diligence to assess the potential investment.

Our senior management team has developed long-standing relationships with developers, owners and brokers of student housing properties that allow us to identify and capitalize on acquisition opportunities. As a result, we have generated an internal database of contacts that we use to identify and evaluate acquisition candidates. We are continuously active in identifying and analyzing potential student housing acquisitions. As a result of our intensive due diligence review and selective criteria, we determine to pursue or complete only a portion of these identified potential acquisitions following our submission of a non-binding purchase offer. In addition to the initial properties that we acquired on the Closing Date, we acquired an additional five properties in individual transactions throughout 2005. The five transactions had an aggregate purchase price of approximately \$119,800 including the assumption of mortgage debt totaling \$48,700. In January 2006, we acquired 13 student housing properties referred to as the Place Portfolio for a purchase price of \$205,000 including the assumption of mortgage debt of \$98,660 and in June 2006, we also acquired the Players Club property in Statesboro, Georgia for a purchase price of \$12,900. Furthermore, in 2006 our senior management team utilized existing relationships with equity investors to acquire University Village Towers in Riverside, California, The Reserve on Stinson in Norman, Oklahoma and Fontainebleu in Santa Barbara, California through joint venture arrangements. Under the joint venture agreements we hold a minority ownership interest in the properties and earn a fee for the management of the properties. This strategy enables us to diversify our portfolio by expanding into geographic markets where we are not currently present with less capital requirements than if we acquired the properties on our own. We expect to continue pursuing these types of arrangements in the future.

**Operating Strategy**

We seek to maximize funds from the operations of the student housing communities that we own and manage through the following operational strategies.

*Maximize property profitability.* We seek to maximize property-level profitability through the use of cost control systems and our focused on-site management personnel. Some of our specific cost control initiatives include:

establishing internal controls and procedures for cost control consistently throughout our communities;

operating with flat property-level management structures, minimizing multiple layers of management;

negotiating utility and service-level pricing arrangements with national and regional vendors and requiring corporate-level approval of service agreements for each community; and

conducting an annual assessment of the costs and effectiveness of each of our marketing strategies in order to place greater emphasis on lower cost/high-impact initiatives.

*Proactive marketing practices.* We have developed and implemented proactive marketing practices to enhance the visibility of our student housing communities and to optimize our occupancy rates. We thoroughly study our competitors, our residents and university policies affecting enrollment and housing. Based on our findings at each property, we formulate a marketing and sales plan for each academic leasing period. We intend to continue to market our properties to students, parents and universities by emphasizing student-oriented living areas, state-of-the-art technology infrastructure, a wide variety of amenities and services and close proximity to the campus.

*Develop and retain personnel.* We staff each student housing community that we own or manage with a full-service on-site property management team. Each of our property management teams includes community assistants who plan activities and interact with students, enhancing their college experiences. We have developed policies and procedures to train each team of on-site employees and to provide each team with full corporate-based support for each essential operating function. To retain employees, we have developed an incentive-based compensation structure that is available to all of our on-site personnel.

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*Maintain and develop strategic relationships.* We seek to maintain and establish relationships with universities. We believe that establishing and maintaining relationships with universities is important to the ongoing success of our business. We believe that these relationships will continue to provide us with referrals to enhance our leasing efforts, opportunities for additional acquisitions of student housing communities and contracts for third-party services.

**Third-Party Services**

In addition to managing our owned student housing communities, we also provide management and development consulting services for third-party owners of student housing. Universities and third-party owners are increasingly turning to the private sector for assistance in developing and managing their student housing properties. We perform third-party services in order to enhance our reputation with universities and to benefit our primary goal of owning high quality student housing communities. We perform third-party services for student housing communities serving some of the nation's most prominent systems of higher education, including the University of North Carolina, the University of Illinois, the California State University System and the Pennsylvania State System of Higher Education.

In order to comply with the rules applicable to our status as a REIT, we provide our third-party services through our Management Company and our Development Company. Unlike the income earned from our properties, under the REIT, the income earned by our Management Company and our Development Company is subject to regular federal income tax and state and local income tax where applicable.

**Third-party management services**

We provide third-party management services for student housing communities owned by educational institutions, charitable foundations and others. Our management services typically cover all aspects of operations, including residence life and student development, marketing, leasing administration, strategic relationships, information systems and accounting services, and are comparable to the services that we provide for our owned properties. We typically provide these services pursuant to multi-year management contracts that have an initial term between five and ten years. We believe that providing these services allows us to increase cash flow with little incremental cost by leveraging our existing management expertise and infrastructure.

For the year ended December 31, 2006 our fees from third-party management services (excluding operating expense reimbursements) represented 2.5% of our revenues. The following table presents certain summary information regarding the student housing communities that we managed for other owners as of December 31, 2006:

| <b>Property</b>                           | <b>University</b>                           | <b># of Beds</b> | <b># of Units</b> |
|---|---|------------------|-------------------|
| <b>On-campus properties</b>               |   |                  |                   |
| University Park Calhoun Street Apartments | University of Cincinnati                    | 747              | 288               |
| Reinhard Villages                         | Clarion University of Pennsylvania          | 656              | 180               |
| University Park                           | Salisbury University (Maryland)             | 576              | 145               |
| Bettie Johnson Hall                       | University of Louisville                    | 490              | 224               |
| University Village                        | California State University San Marcos      | 471              | 126               |
| Normal Hills Apartments                   | Alabama A&M University                      | 448              | 240               |
| Herman & Heddy Kurz Hall                  | University of Louisville                    | 402              | 224               |
| Arlington Park Apartments                 | University of Northern Colorado             | 396              | 180               |
| University Park Phase II                  | Salisbury University (Maryland)             | 312              | 108               |
| Billy Minardi Hall                        | University of Louisville                    | 38               | 20                |
| Blazer Hall                               | University of Alabama Birmingham            | 753              | 190               |
| Community Park                            | University of Louisville                    | 358              | 101               |
| Total on-campus                           |   | 5,647            | 2,026             |
| <b>Off-campus properties</b>              |   |                  |                   |
| Granville Towers                          | University of North Carolina at Chapel Hill | 1,321            | 363               |
| Illini Tower                              | University of Illinois at Champaign         | 725              | 206               |

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|                                      |                                       |       |       |
|--------------------------------------|---------------------------------------|-------|-------|
| Honeysuckle Apartments               | Bloomsburg University of Pennsylvania | 407   | 104   |
| Evergreen Commons                    | Lock Haven University of Pennsylvania | 408   | 108   |
| Campus Village                       | University of Colorado Denver         | 685   | 210   |
| Total off-campus                     |                                       | 3,546 | 991   |
| Totals (for both on- and off-campus) |                                       | 9,193 | 3,017 |

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

We provide third-party development consulting services primarily to universities seeking to modernize their on-campus student housing communities. Our development consulting services typically include the following:

market analysis and evaluation of housing needs and options;

cooperation with university in architectural design;

negotiation of ground lease, development agreement, construction contract, architectural contract and bond documents;

oversight of architectural design process;

coordination of governmental and university plan approvals;

oversight of construction process;

design, purchase and installation of furniture;

pre-opening marketing to students; and

obtaining final approvals of construction.

By providing these services, we are able to observe emerging trends in student housing development and market acceptance of unit and community amenities. Our development consulting services also benefit us by providing us with opportunities to obtain additional third-party property management contracts. Of the eleven student housing communities with respect to which we have provided development-consulting services in the past five years, the property owners have awarded us contracts for third-party management services for ten of those student housing communities. For the year ended December 31, 2006, our fees from development consulting services, excluding operating expense reimbursements, represented 3.4% of our revenues.

Over the past six years, we provided development consulting services to clients for projects totaling over \$400,000 in value. We are currently providing development services at Slippery Rock University of Pennsylvania, California University of Pennsylvania, Indiana University of Pennsylvania, The University of North Carolina Greensboro, The University of Michigan, and The University of Alabama Tuscaloosa pursuant to signed definitive contracts. The aggregate project cost of these six projects is approximately \$230,500. Additionally, we are providing pre-development, construction and management consulting services on new projects or additional phases at Oregon Institute of Technology, West Chester University of Pennsylvania, Slippery Rock University of Pennsylvania, The University of Alabama Tuscaloosa and Indiana University of Pennsylvania, but have not yet entered into definitive contracts for the projects. In aggregate, these total approximately \$240,000 in project costs. We typically are notified that we have been awarded development consulting services projects on the basis of a competitive award process and thereafter begin to work on the project. In the case of tax exempt bond financed projects, definitive contracts are not executed until bond closing.

**Our Operations**

We staff each of our owned and managed student housing communities with a full-service property management team. We typically staff each property with one Community Manager, a marketing/leasing manager, a student accounts manager, a resident services director, a maintenance supervisor, one on-site resident Community Assistant for each 50-85 students and general office staff. Each property management team markets, leases and manages the community with a focus on maximizing its profitability. In addition, each property management team is trained to provide social and developmental opportunities for students, enhancing the students college experiences as well as the desirability of our communities.

We have developed policies and procedures to carefully select and develop each team of on-site employees and to provide each team with full corporate-based support for each essential operating area, including lease administration, sales/marketing, community and university relations, student life administration, maintenance and loss prevention, accounting, human resources/benefits administration and information systems. The corporate level personnel responsible for each of these areas support each Community Manager's leadership role, and are available as a resource to the Community Managers around the clock.

**Residence Life and Student Development**

Our corporate director of residence life and student personnel development designs and directs our residence life program. Our

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programs are developed at the corporate level and implemented at each community by our Community Assistants, together with our other on-site personnel. We provide educational, social and recreational activities designed to help students achieve academic goals, promote respect and harmony throughout the community, and help bridge interaction with the respective university. Examples of our residence life and student development programs include:

community-building and social activities geared to university-related events, holidays, public safety and education;

study and attention skills counseling;

career development, resume writing and employment search skill training;

sponsorship of intramural sport teams, academic clubs and alumni-based activities;

parent and resident appreciation events;

community service activities including recycling, blood drives, food drives and student volunteer committees;

lectures focused on social issues, including effective communication, multi-cultural awareness and substance abuse;

university outreach activities; and

voter registration, enrollment and education.

The Community Assistants perform key roles in the administrative functioning of the community and interface with students through constructive programs, activities and listening to student interests and concerns. Our on-site leadership selects students to serve as Community Assistants who meet criteria established by our corporate director of residence life and student personnel development.

### **Marketing**

We begin our annual marketing campaign by thoroughly segmenting the student population, attending each of the primary universities where our student housing communities are located, and compiling market surveys of comparable student apartment properties. With this information in hand, we formulate a marketing/sales strategy that consists of a renewal campaign for current residents and a broader campaign directed at the eligible student population. We assess university regulations regarding housing requirements to avoid targeting markets in which significant numbers of students are not eligible to live off-campus until they achieve certain credit hour levels.

We begin our renewal campaign between November and January of each year. Signage, direct mailings to the students and their parents, appreciation parties and staff selling incentives are key elements of the renewal campaign. The Community Assistant team plays a key role in communicating the renewal message throughout their assigned property area. We use a database of current resident demographic data to direct sales information to primary feeder high schools, particularly where new freshmen are eligible to live off-campus. Other database criteria include gender, high school location, prior apartment community, academic class standing, field of study and activity preferences.

We appeal to the greater university population through theme-based newspaper advertising campaigns, open house activities, housing fairs conducted by the university and, where effective, web-based advertising. Our Community Assistant staff targets certain university-sponsored on-campus events to distribute handouts displaying our logo and offering incentives to visit our sales center. Wherever possible, our student housing communities appear on university websites in listings of off-campus housing options, together with banner advertising where available.

### **Leasing**

Our standard lease begins in August and runs for approximately 11.5 months, ending July 31 or early August to coincide with the university's fall academic term. The primary exception to our standard lease term is University Towers, which we generally rent on nine-month academic year leases. Our standard lease is an agreement between the

student and parental guarantor, and the specific student housing community. All leases are for individual bedrooms with rights to share common areas within the unit and throughout the community. The individual lease is a strong selling attraction as it limits a student's liability to the rental for one bedroom instead of burdening the student with shared liability for the entire unit rental amount.

We lease our units by floor plan type using internally-generated occupancy spreadsheets to maximize full leasing of entire units, avoiding spotty vacancies particularly in the four-bedroom units. We offer roommate-matching services to facilitate full occupancy. We develop wait lists and monitor popular floor plans that fill to capacity early in the leasing season. If any fully vacant units remain



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available after the beginning of any academic semester, we seek to lease such units on a temporary basis to university-related visitors and our tenants' parents and family members, or keep them available for future leasing to students.

Unlike conventional apartment communities that have monthly recurring move-outs and renewals, our student housing community occupancies remain stable throughout the academic year, but must be entirely re-leased at the beginning of each academic calendar. Because of the nature of leasing to students, we are highly dependent upon the success of our marketing and leasing efforts during the annual leasing season, generally November through August. Our leasing staff undergoes intensive annual professional training to maximize the success of our leasing efforts.

We typically require rent to be paid in 12 equal monthly payments throughout the lease term, with the first installment due on July 1. Residents of University Towers and residence halls that we manage for third parties typically pay their annual rent in two installments on July 1 and December 1. We replace contracted students who fail to pay the first installment with students on our waiting list or from walk-in traffic while the market is still active with students seeking housing at the commencement of the academic year.

### **Strategic Relationships**

We assign high priority to establishing and nurturing relationships with the administration of each of the primary universities where our student housing communities are located. Our corporate staff establishes this network, and on-site management then sustains it with follow-up by corporate staff during routine visits to the community. As a result of our strategic relationships, universities often refer their students to our properties, thus enhancing our leasing effort throughout the year. These networks create goodwill for our student housing communities throughout the university administration, including departments of admissions, student affairs, public safety, athletics and international affairs.

Most universities promote off-campus housing alternatives to their student population. It is our intention to be among the most preferred off-campus residences and for universities to include our communities in listings and literature provided to students. We seek to obtain student mailing lists and to be featured in Internet-based student housing listings wherever permitted by the institution and incorporate these initiatives into our marketing efforts. Our Community Managers make scheduled personal visits with academic departments to further our community exposure at this level.

Our senior management team has developed long-standing relationships with developers, owners and brokers of student housing properties that allow us to identify and capitalize on acquisition opportunities. As a result, we have generated an internal database of contacts that we use to identify and evaluate acquisition candidates. As it is our intention to develop a diverse portfolio of student housing communities we also develop strategic relationships with equity investors in order to pursue acquisitions through joint venture arrangements. Acquisitions, through joint venture arrangements, allow us to obtain a minority interest in student housing communities in geographic markets where we are not currently present with less capital than if we acquired the properties on our own.

### **Competition**

#### ***Competition from universities***

We compete for student tenants with the owners of on-campus student housing, which is generally owned by educational institutions or charitable foundations. Educational institutions can generally avoid real estate taxes and borrow funds at lower interest rates, while we and other private sector operators pay full real estate tax rates and have higher borrowing costs. The competitive advantages of on-campus student housing also include its physical proximity to the university campus and captive student body. Many universities have policies requiring students to live in their on-campus facilities during their freshman year.

On-campus housing is limited, however, and most universities are able to house only a small percentage of their students. As a result, educational institutions depend upon, and may serve as referral sources for, private providers of off-campus housing. In addition, off-campus housing facilities tend to offer more relaxed rules and regulations than on-campus properties and therefore tend to be more appealing to students. Off-campus student housing offers freedom from restrictions such as quiet hours or gender visitation limitations, and is especially appealing to upperclassmen who are transitioning towards their independence.

#### ***Competition from private owners***

We compete with several regional and national owner-operators of off-campus student housing, including two publicly-traded competitors, GMH Communities Trust (GCT) and American Campus Communities, Inc. (ACC). We also compete with privately held developers and other real estate firms and in a number of markets with smaller local owner-operators. Currently, the industry is fragmented with no participant holding a dominant market share. We believe that a number of other large national companies with substantial financial resources may be potential entrants in the student housing business. The entry of one or more of these companies

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could increase competition for students and for the acquisition, management and development of student housing properties.

**Employees**

At December 31, 2006 we had approximately 1,065 employees, including:  
 990 on-site employees, including 453 Community Assistants;

15 persons in our property management services department;

11 persons in our development consulting services department; and

49 executive, corporate administration and financial personnel.

Our senior management team has over 190 years of collective experience working together in the EDR Predecessor's student housing business.

Our management team's in-depth knowledge of the student housing industry results from hands-on experiences. Several of our executive officers began their careers as student-tenant employees or Community Managers responsible for managing individual student housing communities. This history of working together demonstrates our management team's extensive experience in the student housing industry:

| <b>Key Employees</b> | <b>Title</b>   | <b>Number of Years</b> |
|----------------------|--|------------------------|
| Paul O. Bower        | Chairman, Chief Executive Officer and President  | 37                     |
| Craig L. Cardwell    | President of Allen & O'Hara Education Services, Inc.<br>Senior Vice President of Allen & O'Hara Education Services, Inc. | 35                     |
| Thomas J. Hickey     | Vice President of Construction   | 34                     |
| Wallace L. Wilcox    | Senior Vice President of Development   | 26                     |
| William W. Harris    | Senior Vice President and Chief Investment Officer   | 24                     |
| Thomas Trubiana      | Vice President of Human Resources  | 18                     |
| Susan B. Arrison     | Executive Vice President and Chief Financial Officer   | 16                     |
| Randall H. Brown     |  | 7                      |

**NYSE Certifications**

Our CEO certified to the New York Stock Exchange in 2006 that we were in compliance with the NYSE listing standards. Our CEO and CFO have executed the certification required by section 302 of the Sarbanes-Oxley Act of 2002, which is contained herein as an exhibit to this Form 10-K for the fiscal year ended December 31, 2006.

**Code of Business Conduct and Ethics**

We have adopted a Code of Business Conduct and Ethics that applies to all employees. It is available in the corporate governance section of our investor website at [www.educationrealty.com](http://www.educationrealty.com).

**Available Information**

EDR files annual and periodic reports with the Securities and Exchange Commission, or the SEC. All filings made by EDR with the SEC may be copied or read at the SEC's Public Reference Room at 100 F Street NE, Washington, DC 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. The SEC also maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC as the Company does. The website is <http://www.sec.gov>.

Additionally, a copy of this Annual Report on Form 10-K, along with EDR's Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and any amendments to the aforementioned filings, are available on EDR's website free of charge. The filings can be found on the SEC Filings page. EDR's website also contains its Corporate Governance Guidelines, Code of Business Conduct and Ethics

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and the charters of the committees of the Board of Directors. These items can also be found on the Corporate Governance page. EDR's website address is [www.educationrealty.com](http://www.educationrealty.com). Reference to the Company's website does not constitute incorporation by reference of the information contained on the site and should not be considered part of this document. All of the aforementioned materials may also be obtained free of charge by contacting the Investor Relations Department at Education Realty Trust, Inc., 530 Oak Court Drive, Suite 300, Memphis, Tennessee 38117.

**Item 1A. Risk Factors**

***Risks related to our properties and our business***

*Our results of operations are subject to the following risks inherent in the student housing industry: annual leasing cycle, concentrated lease-up period, seasonal cash flows and increased risk of student defaults during the summer months of a twelve-month lease.*

We generally lease our properties under 11.5 month leases, but we may also lease for terms of nine months or less. As a result, we may experience significantly reduced cash flows during the summer months at properties leased for terms shorter than twelve months. In addition, students leasing under twelve-month leases may be more likely to default in their rental payments during the summer months. Although we typically require a student's parents to guarantee the student's lease, we may have to spend considerable effort and expense in pursuing payment upon a defaulted lease, and our efforts may not be successful. Furthermore, all of our properties must be entirely re-leased each year, exposing us to increased leasing risk. In addition, we are subject to increased leasing risk on properties that we acquire that we have not previously managed due to our lack of experience leasing those properties and unfamiliarity with their leasing cycles. Student housing communities are typically leased during a limited leasing season that begins in February and ends in August of each year. We are therefore highly dependent on the effectiveness of our marketing and leasing efforts and personnel during this season. Prior to the commencement of each new lease period, mostly during the first two weeks of August but also during September at some communities, we prepare the units for new incoming tenants. Other than revenue generated by in-place leases for returning tenants, we do not generally recognize lease revenue during this period referred to as "Turn" as we have no leases in place. In addition, during Turn we incur significant expenses making our units ready for occupancy, which we recognize immediately. This lease Turn period results in seasonality in our operating results during the third quarter of each year.

*Our use of debt financing reduces cash available for distribution and may expose us to the risk of default under our debt obligations.*

Our charter and bylaws impose no limitation on the amount of debt we may incur. Our debt service obligations expose us to the risk of default and reduce (or eliminate) cash resources that are available to operate our business. On March 30, 2006, we amended and restated our revolving credit facility and the Operating Partnership entered into a \$50,000 senior unsecured term loan. The amended credit facility has substantially the same terms as the original facility, including \$100,000 of availability and customary affirmative and negative covenants. The amount available to us and our ability to borrow from time to time under this facility is subject to certain conditions and the satisfaction of specified financial covenants, which include limiting distributions to our stockholders. If the income generated by our properties and other assets fails to cover our debt service, we would be forced to reduce or eliminate distributions to our stockholders and may experience losses. Our level of debt and the operating limitations imposed on us by our debt agreements could have significant adverse consequences, including the following:

we may be unable to borrow additional funds as needed or on favorable terms;

we may be unable to refinance our indebtedness at maturity or the refinancing terms may be less favorable than the terms of our original indebtedness;

we may be forced to dispose of one or more of our properties, possibly on disadvantageous terms;

we may default on our payment or other obligations as a result of insufficient cash flow or otherwise, and the lenders or mortgagees may foreclose on our properties that secure their loans and receive an assignment of rents and leases; and

foreclosures could create taxable income without accompanying cash proceeds, a circumstance that could hinder our ability to meet the REIT distribution requirements.

*We face significant competition from university-owned student housing and from other private student housing communities located within close proximity to universities.*

Many students prefer on-campus housing to off-campus housing because of the closer physical proximity to campus and

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integration of on-campus facilities into the academic community. Universities can generally avoid real estate taxes and borrow funds at lower interest rates, while we and other private-sector operators pay full real estate tax rates and have higher borrowing costs. Consequently, universities often can offer more convenient and/or less expensive student housing than we can, which can adversely affect our occupancy and rental rates.

We also compete with other national and regional owner-operators of off-campus student housing in a number of markets as well as with smaller local owner-operators. There are a number of purpose-built student housing properties that compete directly with us located near or in the same general vicinity of many of our student housing communities. Such competing student housing communities may be newer than our student housing communities, located closer to campus, charge less rent, possess more attractive amenities, or offer more services, shorter lease terms or more flexible leases. The construction of competing properties or decreases in the general levels of rents for housing in competing properties could adversely affect our rental income.

We believe that a number of other large national companies may be potential entrants in the student housing business. In some cases, these potential competitors possess substantially greater financial and marketing resources than we do. The entry of one or more of these companies could increase competition for student tenants and for the acquisition, development and management of other student housing communities.

*We may not be able to recover our costs for our development consulting services.*

We typically are awarded development consulting services business on the basis of a competitive award process, but definitive contracts are typically not executed until the formal approval of the transaction by the institution's governing body at the completion of the process. In the intervening period, we may incur significant pre-development and other costs in the expectation that the development consulting services contract will be executed. These costs generally range from \$300,000 to \$500,000 and typically include architects' fees to design the property and contractors' fees to price the construction. We typically seek to enter into a reimbursement agreement with the institution that requires the institution to provide a guarantee of our advances. However, we may not be successful in negotiating such an agreement. In addition, if an institution's governing body does not ultimately approve our selection and the underlying terms of a pending development, we may not be able to recover these costs from the institution. In addition, when we are awarded development consulting business, we generally receive 50% of our fees at the time the project is financed, and the remainder is generally paid in monthly installments thereafter. As a result, the recognition and timing of revenues will, among other things differ from the timing of payments and be contingent upon the project owner's successful structuring and closing of the project financing as well as the timing of construction.

*We may be unable to take advantage of certain disposition opportunities because of additional costs we have agreed to pay if we sell certain of our properties in taxable transactions for a period of five years.*

On the Closing Date, we issued University Towers Partnership units for our interest in University Towers. So long as the contributing owners of such property hold at least 25% of the University Towers Partnership units that they received on the Closing Date, we have agreed to maintain certain minimum amounts of debt on the properties so as to avoid triggering gain to the contributing owners. If we fail to do this, we will owe to the contributing owners the amount of taxes that they incur. In each case, the amount of tax is computed assuming the highest federal and state rates. As a result, these agreements may preclude us from selling the restricted properties at the optimal time.

*We rely on our relationships with universities, and changes in university personnel and/or policies could adversely affect our operating results.*

In some cases, we rely on our relationships with universities for referrals of prospective tenants or for mailing lists of prospective tenants and their parents. The failure to maintain good relationships with personnel at these universities could therefore have a material adverse effect on us. If universities refuse to make their lists of prospective student-tenants and their parents available to us or increase the costs of these lists, the increased costs or failure to obtain such lists could also have a material adverse effect on us.

We may be adversely affected by a change in university admission policies. For example, if a university reduces the number of student admissions, the demand for our properties may be reduced and our occupancy rates may decline. In addition, universities may institute a policy that a certain class of students, such as freshmen, must live in a university-owned facility, which would also reduce the demand for our properties. While we may engage in marketing efforts to compensate for such policy changes, we may not be able to effect such marketing efforts prior to the

commencement of the annual lease-up period or at all.

*Our growth will be dependent upon our ability to acquire and/or develop, lease, integrate and manage additional student housing communities successfully.*

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We cannot assure you that we will be able to identify real estate investments that meet our investment criteria, that we will be successful in completing any acquisition we identify or that any acquisition we complete will produce a return on our investment.

Our future growth will be dependent upon our ability to successfully acquire new properties on favorable terms, which may be adversely affected by the following significant risks:

we may be unable to acquire a desired property at all or at a desired purchase price because of competition from other purchasers of student housing;

many of our future acquisitions are likely to be dependent on external financing, and we may be unable to finance an acquisition on favorable terms or at all;

we may be required to incur significant capital expenditures to improve or renovate acquired properties;

we may be unable to quickly and efficiently integrate new acquisitions, particularly acquisitions of portfolios of properties, into our existing operations;

market conditions may result in higher than expected vacancy rates and lower than expected rental rates; and

we may acquire properties subject to liabilities but without any recourse, or with only limited recourse, to the sellers, or with liabilities that are unknown to us, such as liabilities for undisclosed environmental contamination, claims by tenants, vendors or other persons dealing with the former owners of the properties and claims for indemnification by members, directors, officers and others indemnified by the former owners of the properties.

As we acquire additional properties, we will be subject to risks associated with managing new properties, including lease-up and integration risks. Newly acquired properties may not perform as expected, and newly acquired properties may have characteristics or deficiencies unknown to us at the time of acquisition.

***Risks related to the real estate industry***

*Our performance and the value of our real estate assets are subject to risks associated with real estate assets and with the real estate industry.*

Our ability to make distributions to our stockholders depends on our ability to generate cash revenues in excess of expenses, scheduled debt service obligations and capital expenditure requirements. Events and conditions generally applicable to owners and operators of real property that are beyond our control may decrease cash available for distribution and the value of our properties.

These events include:

local oversupply of student housing units, increased competition or reduction in demand for student housing;

inability to collect rent from tenants;

vacancies or our inability to lease beds on favorable terms;

increased operating costs, including insurance premiums, utilities, and real estate taxes;

costs of complying with changes in governmental regulations;

the relative illiquidity of real estate investments;

changing student demographics;

national, regional and local economic conditions; and



rising interest rates.

*We have limited time to perform due diligence on many of our acquired properties, which could subject us to significant unexpected liabilities and under-performance of the acquired properties.*

When we enter into an agreement to acquire a property, we often have limited time to complete our due diligence prior to acquiring the property. Because our internal resources are limited, we may rely on third parties to conduct a portion of our due

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diligence. To the extent these third parties or we underestimate or fail to identify risks and liabilities associated with the properties we acquire, we may incur unexpected liabilities, or the property may fail to perform in accordance with our projections. If, during the due diligence phase, we do not accurately assess the value of and liabilities associated with a particular property, we may pay a purchase price that exceeds the current fair value of the assets. As a result, material goodwill and other intangible assets would be recorded, which could result in significant charges to earnings in future periods. These charges, in addition to the financial impact of significant liabilities that we may assume, could seriously harm our financial and operating results, as well as our ability to pay dividends.

*Certain losses may not be covered by insurance.*

We carry insurance covering comprehensive liability, fire, earthquake, terrorism, business interruption, vandalism and malicious mischief, extended coverage perils, physical loss perils, commercial general liability, personal injury, workers' compensation, business, automobile, errors and omissions, employee dishonesty, employment practices liability and rental loss with respect to all of the properties in our portfolio and the operation of our Management Company and Development Company. We also carry insurance covering flood (when the property is located in whole or in material part in a designated flood plain area) on some of our properties. We believe the policy specifications and insured limits are appropriate and adequate given the relative risk of loss, the cost of the coverage and industry practice. There are, however, certain types of losses (such as property damage from riots or wars, employment discrimination losses, punitive damage awards, or acts of God) that may be either uninsurable or not economically insurable. Some of our policies are subject to large deductibles or co-payments and policy limits that may not be sufficient to cover losses. In addition, we may discontinue earthquake, terrorism or other insurance on some or all of our properties in the future if the cost of premiums for these policies exceeds, in our judgment, the value of the coverage discounted for the risk of loss. If we experience a loss that is uninsured or that exceeds policy limits, we could lose the capital invested in the damaged properties as well as the anticipated future cash flows from those properties. In addition, if the damaged properties are subject to recourse indebtedness, we would continue to be liable for the indebtedness, even if these properties were irreparably damaged.

*Future terrorist attacks in the United States could harm the demand for and the value of our student housing communities.*

Future terrorist attacks in the United States, such as the attacks that occurred in New York and Washington, D.C. on September 11, 2001, and other acts of terrorism or war, or threats of the same, could harm the demand for and the value of our properties. A decrease in demand in our markets would make it difficult for us to renew or re-lease our properties at rates equal to or above historical rates.

Terrorist attacks also could directly affect the value of our properties through damage, destruction, loss or increased security costs, and the availability or cost of insurance for such acts. If we receive casualty proceeds, we may not be able to reinvest such proceeds profitably or at all, and we may be forced to recognize taxable gain on the affected property.

*We could incur significant costs related to government regulation and private litigation over environmental matters.*

Under various environmental laws, including the Comprehensive Environmental Response, Compensation and Liability Act, or CERCLA, a current or previous owner or operator of real property may be liable for contamination resulting from the release or threatened release of hazardous or toxic substances or petroleum at that property, and an entity that arranges for the disposal or treatment of a hazardous or toxic substance or petroleum at another property may be held jointly and severally liable for the cost to investigate and clean up such property or other affected property. Such parties are known as potentially responsible parties, or PRPs. Environmental laws often impose liability without regard to whether the owner or operator knew of, or was responsible for, the presence of the contaminants, and the costs of any required investigation or cleanup of these substances can be substantial. PRPs are liable to the government as well as to other PRPs who may have claims for contribution. The liability is generally not limited under such laws and could exceed the property's value and the aggregate assets of the liable party. The presence of contamination or the failure to remediate contamination at our properties also may expose us to third-party liability for personal injury or property damage, or adversely affect our ability to sell, lease or develop the real property or to borrow using the real property as collateral. We do not carry environmental insurance on any of the

properties in our portfolio.

Environmental laws also impose ongoing compliance requirements on owners and operators of real property. Environmental laws potentially affecting us address a wide variety of matters, including, but not limited to, asbestos-containing building materials, storage tanks, storm water and wastewater discharges, lead-based paint, wetlands and hazardous wastes. Failure to comply with these laws could result in fines and penalties and/or expose us to third-party liability. Some of our properties may have conditions that are subject to these requirements, and we could be liable for such fines or penalties and/or liable to third parties for those conditions.

*We could be exposed to liability and remedial costs related to environmental matters.*

Certain properties in our portfolio may contain, or may have contained, asbestos-containing building materials, or ACBMs. Environmental laws require that ACBMs be properly managed and maintained, and may impose fines and penalties on building

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owners and operators for failure to comply with these requirements. Also, certain properties may contain, or may have contained, or are adjacent to or near other properties that have contained or currently contain storage tanks for the storage of petroleum products or other hazardous or toxic substances. These operations create a potential for the release of petroleum products or other hazardous or toxic substances. Certain properties in our portfolio contain, or may have contained, elevated radon levels. Third parties may be permitted by law to seek recovery from owners or operators for property damage and/or personal injury associated with exposure to contaminants, including, but not limited to, petroleum products, hazardous or toxic substances and asbestos fibers. Also, some of the properties may contain regulated wetlands that can delay or impede development or require costs to be incurred to mitigate the impact of any disturbance. Absent appropriate permits, we can be held responsible for restoring wetlands and be required to pay fines and penalties.

Some of the properties in our portfolio may contain microbial matter such as mold and mildew. The presence of microbial matter could adversely affect our results of operations. In addition, if any property in our portfolio is not properly connected to a water or sewer system, or if the integrity of such systems are breached, or if water intrusion into our buildings otherwise occurs, microbial matter or other contamination can develop. When excessive moisture accumulates in buildings or on building materials, mold growth may occur, particularly if the moisture problem remains undiscovered or is not addressed over a period of time. Some molds may produce airborne toxins or irritants. If this were to occur, we could incur significant remedial costs and we may also be subject to material private damage claims and awards. Concern about indoor exposure to mold has been increasing, as exposure to mold may cause a variety of adverse health effects and symptoms, including allergic or other reactions. If we become subject to claims in this regard, it could materially and adversely affect us and our future insurability for such matters.

Independent environmental consultants conduct Phase I environmental site assessments on all of our acquisitions. Phase I environmental site assessments are intended to evaluate information regarding the environmental condition of the surveyed property and surrounding properties based generally on visual observations, interviews and certain publicly available databases. These assessments do not typically take into account all environmental issues including, but not limited to, testing of soil or groundwater or the possible presence of asbestos, lead-based paint, radon, wetlands or mold. The results of these assessments are addressed and could result in either a cancellation of the purchase, the requirement of the seller to remediate issues, or additional costs on our part to remediate the issue.

None of the previous site assessments revealed any past or present environmental liability that we believe would be material to us. However, the assessments may have failed to reveal all environmental conditions, liabilities or compliance concerns. Material environmental conditions, liabilities or compliance concerns may have arisen after the assessments were conducted or may arise in the future; and future laws, ordinances or regulations may impose material additional environmental liability.

We cannot assure you that costs of future environmental compliance will not affect our ability to make distributions or that such costs or other remedial measures will not be material to us.

*We may incur significant costs complying with the Americans with Disabilities Act and similar laws.*

Under the Americans with Disabilities Act of 1990, or the ADA, all public accommodations must meet federal requirements related to access and use by disabled persons. Additional federal, state and local laws also may require modifications to our properties, or restrict our ability to renovate our properties. For example, the Fair Housing Amendments Act of 1988, or FHAA, requires apartment properties first occupied after March 13, 1990 to be accessible to the handicapped. We have not conducted an audit or investigation of all of our properties to determine our compliance with present ADA requirements. Noncompliance with the ADA or FHAA could result in the imposition of fines or an award for damages to private litigants and also could result in an order to correct any non-complying feature. We cannot predict the ultimate amount of the cost of compliance with the ADA, FHAA or other legislation. If we incur substantial costs to comply with the ADA, FHAA or any other legislation, we could be materially and adversely affected.

In June 2001, the United States Department of Justice, or DOJ, notified JPI of an on-going investigation regarding possible violations of the ADA and the FHAA at various residential properties developed by JPI, mostly multi-family apartment communities. Of the 14 student housing communities we acquired from JPI on the Closing Date, one property is included in those reviewed by the DOJ to date. The DOJ has reviewed the property plans for this property

but has not issued a report regarding its review. In October 2002, the DOJ indicated that the investigations were being delayed for an undetermined period of time. This investigation has not been resolved and, at this point, no conclusion can be reached regarding what will be required to conclude it or whether it will result in a dispute or legal proceedings with the DOJ. Noncompliance with the ADA and the FHAA could result in the imposition of injunctive relief, fines, awards of damages to private litigants or additional capital expenditures to remedy such noncompliance. We are unable to predict the outcome of the DOJ's investigation related to the JPI portfolio.

*We may incur significant costs complying with other regulations.*

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The properties in our portfolio are subject to various federal, state and local regulatory requirements, such as state and local fire and life safety requirements. If we fail to comply with these various requirements, we might incur governmental fines or be liable for private actions for money damages. Furthermore, existing requirements could change and require us to make significant unanticipated expenditures that would materially and adversely affect us. *Our potential participation in joint ventures presents additional risks.*

We may co-invest with third parties through partnerships, joint ventures or other entities, acquiring non-controlling interests in or sharing responsibility for managing the affairs of a property, partnership, joint venture or other entity. In such event, we will not have sole decision-making authority regarding the property, partnership, joint venture or other entity. Investments in partnerships, joint ventures or other entities may, under certain circumstances, involve risks not present were a third party not involved, including the possibility that partners or co-venturers may become bankrupt or fail to fund their share of required capital contributions. Partners or co-venturers also may have economic or other business interests or goals that are inconsistent with our business interests or goals and may be in a position to take actions contrary to our preferences, policies or objectives. Such investments also will have the potential risk of our reaching impasses with our partners or co-venturers on key decisions, such as a sale, because neither we nor the partner or co-venturer would have full control over the partnership or joint venture. Disputes between us and partners or co-venturers may result in litigation or arbitration that would increase our expenses and prevent our management team from focusing its time and effort exclusively on our business. In addition, we may in some circumstances be liable for the actions of our third-party partners or co-venturers.

*Illiquidity of real estate investments could significantly impede our ability to respond to adverse changes in the performance of our properties.*

Because real estate investments are relatively illiquid, our ability to promptly sell one or more properties in our portfolio in response to changing economic, financial and investment conditions is limited. The real estate market is affected by many factors, such as general economic conditions, availability of financing, interest rates and other factors, including supply and demand, that are beyond our control. We cannot predict whether we will be able to sell any property for the price or on the terms set by us or whether any price or other terms offered by a prospective purchaser would be acceptable to us. We also cannot predict the length of time needed to find a willing purchaser and to close the sale of a property.

We may be required to expend funds to correct defects or to make improvements before a property can be sold. We cannot ensure that we will have funds available to correct those defects or to make those improvements. In acquiring a property, we may agree to transfer restrictions that materially restrict us from selling that property for a period of time or impose other restrictions, such as a limitation on the amount of debt that can be placed or repaid on that property. These transfer restrictions would impede our ability to sell a property even if we deem it necessary or appropriate.

### ***Risks related to our organization and structure***

*To maintain our REIT status, we may be forced to limit the activities of our Management Company.*

To maintain our status as a REIT, no more than 20% of the value of our total assets may consist of the securities of one or more taxable REIT subsidiaries, such as our Management Company. Some of our activities, such as our third-party management, development consulting and food services, must be conducted through our Management Company and Development Company for us to maintain our REIT qualification. In addition, certain non-customary services such as cleaning, transportation, security and, in some cases, parking, must be provided by a taxable REIT subsidiary or an independent contractor. If the revenues from such activities create a risk that the value of our Management Company, based on revenues or otherwise, approaches the 20% threshold, we will be forced to curtail such activities or take other steps to remain under the 20% threshold. Because the 20% threshold is based on value, it is possible that the Internal Revenue Service, or IRS, could successfully contend that the value of our Management Company exceeds the 20% threshold even if our Management Company accounts for less than 20% of our consolidated revenues, income or cash flow, in which case our status as a REIT could be jeopardized.

*We will depend heavily on the availability of equity and debt capital to fund our business.*

In order to maintain our qualification as a REIT, we are required under the Internal Revenue Code of 1986, as amended, which we refer to as the Code, to distribute annually at least 90% of our REIT taxable income, determined without regard to distributions paid and excluding any net capital gain. To the extent that we satisfy this distribution

requirement, but distribute less than 100% of our net taxable income, including any net capital gains, we will be subject to federal corporate income tax on our undistributed taxable income. In addition, we will be subject to a 4% nondeductible excise tax if the actual amount that we pay out to our shareholders in a calendar year is less than a minimum amount specified under federal tax laws. Because of these distribution requirements, REITs are

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largely unable to fund capital expenditures, such as acquisitions, renovations, development and property upgrades from operating cash flow. Consequently, we will be largely dependent on the public equity and debt capital markets and private lenders to provide capital to fund our growth and other capital expenditures. We may not be able to obtain this financing on favorable terms or at all. Our access to equity and debt capital depends, in part, on:

general market conditions;

our current debt levels and the number of properties subject to encumbrances;

our current performance and the market's perception of our growth potential;

our cash flow and cash distributions; and

the market price per share of our common stock.

If we cannot obtain capital from third-party sources, we may not be able to acquire properties when strategic opportunities exist, satisfy our debt service obligations or make the cash distributions to our stockholders, including those necessary to maintain our qualification as a REIT.

*Our charter contains restrictions on the ownership and transfer of our stock.*

Our charter provides that, subject to certain exceptions, no person or entity may beneficially own, or be deemed to own by virtue of the applicable constructive ownership provisions of the Code, more than 9.8% (by value, by number of shares or by voting power, whichever is more restrictive) of the outstanding shares of our common stock or more than 9.8% (by value, by number of shares or by voting power, whichever is more restrictive) of all our outstanding shares, including both common and preferred stock. We refer to this restriction as the ownership limit. Generally, if a beneficial owner of our shares exceeds the ownership limit, such owner will be effectively divested of all ownership rights with respect to shares exceeding the limit and may suffer a loss on his or her investment.

The constructive ownership rules under the Code are complex and may cause stock owned actually or constructively by a group of related individuals and/or entities to be owned constructively by one individual or entity. As a result, the acquisition of less than 9.8% of our stock (or the acquisition of an interest in an entity that owns, actually or constructively, our stock) by an individual or entity, could, nevertheless cause that individual or entity, or another individual or entity, to own constructively in excess of 9.8% of our outstanding stock and thereby subject certain shares to the ramifications of exceeding the ownership limit. Our charter, however, permits exceptions to be made to this limitation if our board of directors determines that such exceptions will not jeopardize our tax status as a REIT. This ownership limit could delay, defer or prevent a change of control or other transaction that might otherwise result in a premium price for our common stock or otherwise be in the best interest of our stockholders.

*Certain tax and anti-takeover provisions of our charter and bylaws may inhibit a change of our control.*

Certain provisions contained in our charter and bylaws and the Maryland General Corporation Law may discourage a third party from making a tender offer or acquisition proposal to us, or could delay, defer or prevent a change in control or the removal of existing management. These provisions also may delay or prevent our stockholders from receiving a premium for their shares of common stock over then-prevailing market prices. These provisions include:

the REIT ownership limit described above;

authorization of the issuance of our preferred shares with powers, preferences or rights to be determined by our board of directors;

the right of our board of directors, without a stockholder vote, to increase our authorized shares and classify or reclassify unissued shares; and

advance notice requirements for stockholder nomination of directors and for other proposals to be presented at stockholder meetings.



*The Maryland business statutes also impose potential restrictions on a change of control of our Company.*

Various Maryland laws may have the effect of discouraging offers to acquire us, even if the acquisition would be advantageous to our stockholders. Our bylaws exempt us from some of those laws, such as the control share acquisition provisions, but our board of directors can change our bylaws at any time to make these provisions applicable to us.

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*We have the right to change some of our policies that may be important to our stockholders without stockholder consent.*

Our major policies, including our policies with respect to investments, leverage, financing, growth, debt and capitalization, are determined by our board of directors or those committees or officers to whom our board of directors has delegated that authority. Our board of directors also establishes the amount of any distributions that we make to our stockholders. Our board of directors may amend or revise the foregoing policies, our distribution payment amounts and other policies from time to time without a stockholder vote. Accordingly, our stockholders may not have control over changes in our policies.

*The ability of our board of directors to revoke our REIT election without stockholder approval may cause adverse consequences to our stockholders.*

Our charter provides that our board of directors may revoke or otherwise terminate our REIT election, without the approval of our stockholders, if it determines that it is no longer in our best interests to continue to qualify as a REIT. If we cease to qualify as a REIT, we would become subject to federal income tax on our taxable income and would no longer be required to distribute most of our taxable income to our stockholders, which may have adverse consequences on the total return to our stockholders.

*Our rights and the rights of our stockholders to take action against our directors and officers are limited.*

Maryland law provides that a director or officer has no liability in that capacity if he or she performs his or her duties in good faith, in a manner he or she reasonably believes to be in our best interests and with the care that an ordinarily prudent person in a like position would use under similar circumstances. In addition, our charter eliminates our directors' and officers' liability to us and our stockholders for money damages except for liability resulting from actual receipt of an improper benefit in money, property or services or active and deliberate dishonesty established by a final judgment and that is material to the cause of action. Our bylaws require us to indemnify directors and officers for liability resulting from actions taken by them in those capacities to the maximum extent permitted by Maryland law. As a result, our stockholders and we may have more limited rights against our directors and officers than might otherwise exist under common law. In addition, we may be obligated to fund the defense costs incurred by our directors and officers.

*Our success depends on key personnel whose continued service is not guaranteed.*

We depend upon the services of our key personnel, particularly Paul O. Bower, our Chairman, Chief Executive Officer and President, Randall H. Brown, our Executive Vice President and Chief Financial Officer, and Craig L. Cardwell, our President of Allen & O'Hara Education Services, Inc. Messrs. Bower and Cardwell each have been in the student housing business for over 30 years, and each of them has developed a network of contacts and a reputation that attracts business and investment opportunities and assists us in negotiations with universities, lenders and industry personnel. In addition, Mr. Brown possesses detailed knowledge of and experience with our financial and ancillary support operations that are critical to our operations and financial reporting obligations as a public company. We will continue to need to attract and retain qualified additional senior executive officers as we grow our business. The loss of the services of any of our senior executive officers, or our inability to recruit and retain qualified personnel could have a material adverse effect on our business and financial results.

### ***Federal income tax risks***

*Failure to qualify as a REIT would have significant adverse consequences to us and the value of our stock.*

We intend to operate in a manner that will allow us to qualify as a REIT for federal income tax purposes under the Code. We have not requested and do not plan to request a ruling from the IRS that we qualify as a REIT. If we lose our REIT status, we will face serious tax consequences that could substantially reduce the funds available for distribution to our stockholders for each of the years involved because:

we would not be allowed a deduction for distributions to stockholders in computing our taxable income, and such amounts would be subject to federal income tax at regular corporate rates;

we also could be subject to the federal alternative minimum tax and possibly increased state and local taxes; and

unless we are entitled to relief under applicable statutory provisions, we could not elect to be taxed as a REIT for four taxable years following the year during which we were disqualified.

In addition, if we fail to qualify as a REIT, we will not be required to make distributions to stockholders, and all distributions to stockholders will be subject to tax as ordinary income to the extent of our current and accumulated earnings and profits. As a result of

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all these factors, our failure to qualify as a REIT also could impair our ability to expand our business and raise capital, and would adversely affect the value of our common stock.

Qualification as a REIT involves the application of highly technical and complex Code provisions for which there are only limited judicial and administrative interpretations. The complexity of these provisions and of the applicable Treasury Regulations that have been promulgated under the Code is greater in the case of a REIT that, like us, holds its assets through a partnership or a limited liability company. The determination of various factual matters and circumstances not entirely within our control may affect our ability to qualify as a REIT. In order to qualify as a REIT, we must satisfy a number of requirements, including requirements regarding the composition of our assets and two gross income tests : (a) at least 75% of our gross income in any year must be derived from qualified sources, such as rents from real property, mortgage interest, distributions from other REITs and gains from sale of such assets, and (b) at least 95% of our gross income must be derived from sources meeting the 75% income test above, and other passive investment sources, such as other interest and dividends and gains from sales of securities. Also, we must make distributions to stockholders aggregating annually at least 90% of our REIT taxable income, excluding any net capital gains. In addition, new legislation, regulations, administrative interpretations or court decisions may adversely affect our investors, our ability to qualify as a REIT for federal income tax purposes or the desirability of an investment in a REIT relative to other investments.

*We may be subject to federal and state income taxes that would harm our financial condition.*

Even if we qualify and maintain our status as a REIT, we may become subject to federal income taxes and related state taxes. For example, if we have net income from a sale of dealer property or inventory, or, if our Management Company enters into agreements with us or our tenants on a basis that is determined to be other than an arm's length basis, that income will be subject to a 100% penalty tax. If we believe that a sale of a property might be treated as a prohibited transaction, we will attempt to structure a sale through a taxable REIT subsidiary, in which case the gain from the sale would be subject to corporate income tax but not the 100% prohibited transaction tax. We cannot assure you, however, that the IRS would not assert successfully that sales of properties that we make directly, rather than through a taxable REIT subsidiary, were sales of dealer property or inventory, in which case the 100% penalty tax will apply. In addition, we may not be able to make sufficient distributions to avoid corporate income tax and the 4% excise tax on undistributed income. We may also be subject to state and local taxes on our income or property, either directly or at the level of our Operating Partnership or the University Towers Partnership or at a level of the other entities through which we indirectly own our properties that would adversely affect our operating results.

*An investment in our common stock has various tax risks, including the treatment of distributions in excess of earnings and the inability to apply passive losses against distributions.*

Distributions in excess of current and accumulated earnings and profits, to the extent that they exceed the adjusted basis of an investor's common stock, will be treated as long-term capital gain (or short-term capital gain if the shares have been held for less than one year). Any gain or loss realized upon a taxable disposition of shares by a stockholder who is not a dealer in securities will be treated as a long-term capital gain or loss if the shares have been held for more than one year, and otherwise will be treated as short-term capital gain or loss. Distributions that we properly designate as capital gain distributions will be treated as taxable to stockholders as gains (to the extent that they do not exceed our actual net capital gain for the taxable year) from the sale or disposition of a capital asset held for greater than one year. Distributions we make and gain arising from the sale or exchange by a stockholder of shares of our stock will not be treated as passive income, meaning stockholders generally will not be able to apply any passive losses against such income or gain.

*Future distributions may include a significant portion as a return of capital.*

Our distributions may exceed the amount of our income as a REIT. If so, the excess distributions will be treated as a return of capital to the extent of the stockholder's basis in our stock, and the stockholder's basis in our stock will be reduced by such amount. To the extent distributions exceed a stockholder's basis in our stock, the stockholder will recognize capital gain, assuming the stock is held as a capital asset.

**Item 1B. Unresolved Staff Comments.**

None.

**Item 2. Properties.**

**General**

As of December 31, 2006, our properties consisted of 40 communities located in 17 states containing 26,019 beds in 7,953

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apartment units located near 33 universities. On January 6, 2006 we completed the acquisition of the 13 collegiate student housing communities with a combined total of 5,894 beds from Place Properties, L.P. of Atlanta, Georgia. Under terms of the transaction, Place Properties sold its owned portfolio to the Operating Partnership and then leased back the properties and will operate them with the existing management teams under a renewable, initial five-year lease agreement with the Trust.

Thirty-nine of our 40 properties are modern apartment communities, with clusters of low-rise buildings that consist of student housing units with private bedrooms and one or more bathrooms centered around a common area consisting of a fully furnished living room, dining room and fully-equipped kitchen. University Towers is a high-rise residence hall that has a cafeteria on the premises and no individual kitchens in the units. We provide food services through our Management Company to residents of University Towers. Our student housing communities typically contain a swimming pool, recreational facilities and common areas, and each bedroom has individualized locks, high-speed Internet access and telephone and cable television connections.

Our owned student housing communities typically have the following characteristics:

located in close proximity to university campuses (within two miles or less);

average age of approximately 7 years;

designed specifically for students with modern unit plans and amenities; and

supported by our long-standing Community Assistant program and other student-oriented activities and services that enhance the college experience.

**Properties**

The following tables provide certain summary information about our owned properties as of December 31, 2006 and 2005:

| Name                      | Primary University Served   | Year Built | Acquisition Date | # of Beds | # of Units | Occupancy Rate(1) | Year Ended December 31, 2006 Revenue   |                      |
|---------------------------|-----------------------------|------------|------------------|-----------|------------|-------------------|--|----------------------|
|                           |                             |            |                  |           |            |                   | Average Monthly Revenue (In thousands) | per Available Bed(2) |
| <b>Owned and Operated</b> |                             |            |                  |           |            |                   |  |                      |
| NorthPointe               | University of Arizona       | 1999       | Jan 05           | 912       | 300        | 89.1%             | \$ 294                                 | \$ 323               |
| The Reserve at Athens     | University of Georgia       | 1999       | Jan 05           | 612       | 200        | 99.4              | 228                                    | 373                  |
| The Reserve at Clemson    | Clemson University          | 1999       | Jan 05           | 590       | 177        | 92.7              | 190                                    | 322                  |
| Players Club              | Florida State University    | 1994       | Jan 05           | 336       | 84         | 94.4              | 128                                    | 380                  |
|                           | Western Kentucky            |            |                  |           |            |                   |  |                      |
| The Gables                | University                  | 1996       | Jan 05           | 290       | 73         | 96.2              | 86                                     | 298                  |
| College Station           | Augusta State University    | 1989       | Jan 05           | 203       | 61         | 63.1              | 35                                     | 174                  |
|                           | North Carolina State        |            |                  |           |            |                   |  |                      |
| University Towers         | University                  | 1989       | Jan 05           | 953       | 251        | 82.9              | 432(4)                                 | 453(4)               |
| The Pointe at South       |                             |            |                  |           |            |                   |  |                      |
| Florida                   | University of South Florida | 1999       | Jan 05           | 1,002     | 336        | 97.0              | 397                                    | 397                  |
| Commons at Knoxville      | University of Tennessee     | 1999       |                  | 708       | 211        | 97.3              | 291                                    | 411                  |
| The Commons               | Florida State University    | 1997       | Jan 05           | 732       | 252        | 93.4              | 252                                    | 345                  |
| The Reserve on Perkins    | Oklahoma State University   | 1999       | Jan 05           | 732       | 234        | 91.1              | 210                                    | 287                  |

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|                          |                           |      |     |    |       |     |      |     |     |
|--------------------------|---------------------------|------|-----|----|-------|-----|------|-----|-----|
| The Reserve at Star Pass | University of Arizona     | 2001 | Jan | 05 | 1,020 | 336 | 93.0 | 333 | 327 |
|                          | Western Michigan          |      |     |    |       |     |      |     |     |
| The Pointe at Western    | University                | 2000 | Jan | 05 | 876   | 324 | 96.6 | 331 | 378 |
| College Station at       |                           |      |     |    |       |     |      |     |     |
| W. Lafayette             | Purdue University         | 2000 | Jan | 05 | 960   | 336 | 91.0 | 315 | 328 |
| Commons on Kinnear       | The Ohio State University | 2000 | Jan | 05 | 502   | 166 | 95.6 | 231 | 460 |
|                          | Pennsylvania State        |      |     |    |       |     |      |     |     |
| The Pointe               | University                | 1999 | Jan | 05 | 984   | 294 | 96.7 | 357 | 363 |
| The Reserve at           |                           |      |     |    |       |     |      |     |     |
| Columbia                 | University of Missouri    | 2000 | Jan | 05 | 676   | 260 | 90.4 | 243 | 359 |
| The Reserve on           |                           |      |     |    |       |     |      |     |     |
| Frankford                | Texas Tech University     | 1997 | Jan | 05 | 737   | 243 | 90.2 | 246 | 334 |
|                          |                           | 19   |     |    |       |     |      |     |     |

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| Property Name                             | Primary University Served           | Year Built | Acquisition Date | # of Beds | # of Occupancy Units | Average Rate(1) | Year Ended December 31, 2006        |                      |
|---|-------------------------------------|------------|------------------|-----------|----------------------|-----------------|-------------------------------------|----------------------|
|   |                                     |            |                  |           |                      |                 | Monthly per Total Available Revenue | per Available Bed(2) |
|   |                                     |            |                  |           |                      |                 | (In thousands)                      |                      |
| Village on Tharpe Lofts                   | Florida State University            | 1995       | Jan 05           | 1,554     | 486                  | 95.4            | 520                                 | 334                  |
| Reserve on West 31st                      | University of Central Florida       | 2002       | Jan 05           | 730       | 254                  | 97.5            | 407                                 | 558                  |
| Campus Creek                              | University of Kansas                | 1998       | Jan 05           | 720       | 192                  | 92.6            | 216                                 | 299                  |
| State West                                | University of Mississippi           | 2004       | Feb 05           | 636       | 192                  | 92.9            | 251                                 | 394                  |
| Campus Lodge                              | University of South Carolina        | 2003       | Mar 05           | 480       | 144                  | 99.2            | 180                                 | 375                  |
| College Grove                             | University of Florida               | 2001       | Jun 05           | 1,116     | 360                  | 95.8            | 567                                 | 508                  |
| Reserve on South College                  | Middle Tennessee State University   | 1998       | Apr 05           | 864       | 240                  | 96.8            | 260                                 | 301                  |
| Members Club                              | Auburn University                   | 1999       | Jul 05           | 576       | 180                  | 95.0            | 184                                 | 319                  |
|   | Georgia Southern University         | 1993       | Jun 06           | 624       | 214                  | 79.6            | 102                                 | 281                  |
| <b>-total owned and operated</b>          |                                     | 1998(3)    |                  | 20,125    | 6,400                | 93.3%(3)        | 7,286                               | 367                  |
| <b>Owned and Leased Properties(5)</b>     |                                     |            |                  |           |                      |                 |                                     |                      |
| My Place                                  | Troy State University               | 2000       | Jan 06           | 408       | 108                  |                 |                                     |                      |
| Jacksonville Place                        | Jacksonville State University       | 2000       | Jan 06           | 504       | 132                  |                 |                                     |                      |
| Con Place                                 | Macon State College                 | 1999       | Jan 06           | 336       | 84                   |                 |                                     |                      |
| Clayton Place                             | Clayton College & State University  | 1999       | Jan 06           | 854       | 221                  |                 |                                     |                      |
| Mer Place                                 | State University of West Georgia    | 2000       | Jan 06           | 504       | 132                  |                 |                                     |                      |
| Tray Place                                | Murray State University             | 2000       | Jan 06           | 408       | 108                  |                 |                                     |                      |
| Le Place                                  | Southeast Missouri State University | 2000       | Jan 06           | 360       | 96                   |                 |                                     |                      |
| Monson Place                              | Clemson University                  | 1998       | Jan 06           | 288       | 96                   |                 |                                     |                      |
| Stin Place                                | University of Tennessee at Martin   | 2000       | Jan 06           | 384       | 96                   |                 |                                     |                      |
| Keley Place                               | Clemson University                  | 1999       | Jan 06           | 480       | 132                  |                 |                                     |                      |
| Collton Place                             | State University of West Georgia    | 1998       | Jan 06           | 336       | 84                   |                 |                                     |                      |
| Esboro Place                              | Georgia Southern University         | 1999       | Jan 06           | 528       | 132                  |                 |                                     |                      |
| stern Place                               | Western Kentucky University         | 2000       | Jan 06           | 504       | 132                  |                 |                                     |                      |
| <b>-total owned and leased properties</b> |                                     | 1999(3)    |                  | 5,894     | 1,553                |                 |                                     |                      |
| <b>total owned properties</b>             |                                     | 1999(3)    |                  | 26,019    | 7,953                |                 |                                     |                      |



- (1) Average of the physical month-end occupancy rates.
- (2) Monthly revenue per available bed for 2006 is equal to total revenue for the year ended December 31, 2006 divided by the sum of the design beds (including staff and model beds) at the property each month. For properties acquired during the year, monthly revenue per available bed equals total revenue for the period subsequent to acquisition through December 31, 2006 divided by the sum of the design beds (including staff and model beds) at the property each month.
- (3) Represents average for all properties in portfolio.
- (4) Revenues and revenue per available bed for University

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Towers  
excludes  
revenue from  
food service  
operations.

(5) EDR does not  
operate the  
Place Portfolio,  
and therefore no  
operating  
statistics are  
presented.

| Name  | Primary University Served       | Year Built | Acquisition Date | # of Beds | # of Units | Year Ended<br>December 31, 2005 |                                |                        |
|---|---------------------------------|------------|------------------|-----------|------------|---------------------------------|--------------------------------|------------------------|
|   |                                 |            |                  |           |            | Average Occupancy Rate(1)       | Monthly Revenue (In thousands) | Total Available Bed(2) |
| NorthPointe   | University of Arizona           | 1999       | Jan 05           | 912       | 300        | 89.7%                           | \$ 301                         | \$ 330                 |
| The Reserve at Athens                                 | University of Georgia           | 1999       | Jan 05           | 612       | 200        | 95.6                            | 214                            | 350                    |
| The Reserve at Clemson                                | Clemson University              | 1999       | Jan 05           | 590       | 177        | 95.4                            | 186                            | 316                    |
| Players Club  | Florida State University        | 1994       | Jan 05           | 336       | 84         | 96.1                            | 125                            | 372                    |
| The Gables  | Western Kentucky University     | 1996       | Jan 05           | 290       | 73         | 89.2                            | 81                             | 278                    |
| College Station                                       | Augusta State University        | 1989       | Jan 05           | 203       | 61         | 74.4                            | 42                             | 207                    |
| University Towers                                     | North Carolina State University | 1989       | Jan 05           | 953       | 251        | 73.9                            | 432(4)                         | 453(4)                 |
| The Pointe at South Florida                           | University of South Florida     | 1999       | Jan 05           | 1,002     | 336        | 96.1                            | 411                            | 442                    |
| Commons at Knoxville                                  | University of Tennessee         | 1999       | Jan 05           | 708       | 211        | 94.8                            | 281                            | 396                    |
| The Commons   | Florida State University        | 1997       | Jan 05           | 732       | 252        | 95.1                            | 257                            | 351                    |
| The Reserve on Perkins                                | Oklahoma State University       | 1999       | Jan 05           | 732       | 234        | 92.9                            | 216                            | 295                    |
| The Reserve at Star Pass                              | University of Arizona           | 2001       | Jan 05           | 1,020     | 336        | 93.1                            | 325                            | 319                    |
| The Pointe at Western College Station at W. Lafayette | Western Michigan University     | 2000       | Jan 05           | 876       | 324        | 95.3                            | 342                            | 391                    |
| Commons on Kinnear                                    | Purdue University               | 2000       | Jan 05           | 960       | 336        | 91.8                            | 298                            | 311                    |
| The Pointe  | The Ohio State University       | 2000       | Jan 05           | 502       | 166        | 95.8                            | 234                            | 465                    |
| The Reserve at Columbia                               | Pennsylvania State University   | 1999       | Jan 05           | 984       | 294        | 93.2                            | 363                            | 369                    |
| The Reserve on Frankford                              | University of Missouri          | 2000       | Jan 05           | 676       | 260        | 96.9                            | 275                            | 406                    |
| The Village on Tharpe                                 | Texas Tech University           | 1997       | Jan 05           | 737       | 243        | 86.9                            | 252                            | 342                    |
| The Lofts   | Florida State University        | 1995       | Jan 05           | 1,554     | 486        | 94.7                            | 533                            | 343                    |
|   | University of Central Florida   | 2002       | Jan 05           | 730       | 254        | 96.3                            | 404                            | 553                    |
|   | University of Kansas            | 1998       | Jan 05           | 720       | 192        | 89.8                            | 215                            | 299                    |

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The Reserve on West  
31st

|              |                           |            |        |     |     |      |     |     |
|--------------|---------------------------|------------|--------|-----|-----|------|-----|-----|
| Campus Creek | University of Mississippi | 2004<br>20 | Feb 05 | 636 | 192 | 88.6 | 218 | 377 |
|--------------|---------------------------|------------|--------|-----|-----|------|-----|-----|

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| Name                            | Primary University Served         | Year Built | Acquisition Date | # of Beds | # of Units | Year Ended December 31, 2005 |  |           |                      |
|---------------------------------|-----------------------------------|------------|------------------|-----------|------------|------------------------------|--|-----------|----------------------|
|                                 |                                   |            |                  |           |            | Average Occupancy Rate(1)    | Monthly per Total Available Revenue(2) | Revenue   | per Available Bed(2) |
| (In thousands)                  |                                   |            |                  |           |            |                              |  |           |                      |
| Pointe West                     | University of South Carolina      | 2003       | Mar 05           | 480       | 144        | 96.2                         | 147                                    | 337       |                      |
| Campus Lodge                    | University of Florida             | 2001       | Jun 05           | 1,116     | 360        | 92.8                         | 349                                    | 491       |                      |
| College Grove                   | Middle Tennessee State University | 1998       | Apr 05           | 864       | 240        | 94.7                         | 187                                    | 297       |                      |
| The Reserve on South College    | Auburn University                 | 1999       | Jul 05           | 576       | 180        | 92.4                         | 90                                     | 287       |                      |
| <b>Total Owned and Operated</b> |                                   | 1998(3)    |                  | 19,501    | 6,186      | 92.2%(3)                     | \$ 6,778                               | \$ 366(3) |                      |

(1) Average of the physical month-end occupancy rates for the period subsequent to acquisition through December 31, 2005.

(2) Monthly revenue per available bed for 2005 is equal to total revenue for the period subsequent to acquisition through December 31, 2005 divided by the sum of the design beds (including staff and model beds) at the property each month.

(3)

Represents average for all properties in portfolio.

- (4) Revenues and revenue per available bed for University Towers excludes revenue from food service operations.

### Mortgage Indebtedness

The following table contains summary information concerning the mortgage debt encumbering our properties as of December 31, 2006:

| <b>Property</b>                                   | <b>Outstanding<br/>December<br/>31,<br/>2006</b> | <b>Contractual<br/>Fixed<br/>Interest<br/>Rate</b> | <b>Maturity<br/>Date</b> | <b>Amortization</b> |
|---|--|--|--------------------------|---------------------|
| University Towers                                 | \$ 23,563  | 6.77%  | 3/1/2008                 | 30 Year             |
| The Reserve at Clemson                            | 11,651   | 6.63%  | 5/1/2007                 | 30 Year             |
| The Gables  | 4,433  | 5.50%  | 11/1/2013                | 30 Year             |
| NorthPointe                                       | 18,312   | 6.63%  | 5/1/2007                 | 30 Year             |
| The Pointe at S. Florida                          | 23,779   | 5.48%  | 7/7/2009                 | 30 Year             |
| The Pointe at Western                             | 21,490   | 5.48%  | 7/7/2009                 | 30 Year             |
| The Lofts   | 26,500   | 3.49%  | 4/5/2007                 | 30 Year             |
| The Reserve on Perkins/The Commons at Knoxville   | 31,838   | 5.48%  | 7/7/2009                 | 30 Year             |
| The Pointe at Penn State/The Reserve at Star Pass | 50,482   | 5.48%  | 7/7/2009                 | 30 Year             |
| Campus Lodge                                      | 36,854   | 6.97%  | 5/1/2012                 | 30 Year             |
| Pointe West                                       | 10,986   | 4.92%  | 8/1/2014                 | 30 Year             |
| College Station at W. Lafayette                   | 14,725   | 5.48%  | 7/7/2009                 | 30 Year             |
| The Commons on Kinnear                            | 14,625   | 5.48%  | 7/7/2009                 | 30 Year             |
| The Reserve at Frankford                          | 14,426   | 5.48%  | 7/7/2009                 | 30 Year             |
| The Reserve at Columbia                           | 19,301   | 5.48%  | 7/7/2009                 | 30 Year             |
| Troy Place  | 9,440  | 6.44%  | 12/9/2009                | 30 Year             |
| Jacksonville Place                                | 11,120   | 6.44%  | 12/9/2009                | 30 Year             |
| Macon Place                                       | 7,440  | 6.44%  | 12/9/2009                | 30 Year             |
| Clayton Place                                     | 24,540   | 6.44%  | 12/9/2009                | 30 Year             |
| River Place                                       | 13,680   | 6.44%  | 12/9/2009                | 30 Year             |
| Murray Place                                      | 6,800  | 6.44%  | 12/9/2009                | 30 Year             |
| Cape Place  | 8,520  | 6.44%  | 12/9/2009                | 30 Year             |
| Clemson Place                                     | 8,160  | 6.44%  | 12/9/2009                | 30 Year             |
| Martin Place                                      | 8,960  | 6.44%  | 12/9/2009                | 30 Year             |
| Total debt /weighted average rate                 | \$ 421,625                                       | 5.85%  |                          |                     |

|   |            |
|---|------------|
| Unamortized premium                             | 2,308      |
| Total mortgage loans net of unamortized premium | 423,933    |
| Less current portion of long-term debt          | (60,158)   |
| Total long-term debt, net of current portion    | \$ 363,775 |

The weighted average interest rate of this mortgage indebtedness is 5.85% and 5.67% at December 31, 2006 and 2005, respectively. Each of these mortgages is a non-recourse obligation subject to customary exceptions and has 30-year amortization. The loans generally do not allow prepayment prior to maturity. However, prepayment is allowed in certain cases subject to prepayment penalties.

**Table of Contents****Item 3. 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 4. Submission of Matters to a Vote of Security Holders.**

None.

**PART II****Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.****Market Information**

Our common stock began trading on the New York Stock Exchange under the symbol EDR on January 26, 2005. The initial public offering price of our common stock on such date was \$16.00 per share. There were approximately 659 holders of record out of the 27,386,537 shares outstanding on March 9, 2007. On the same day, our common stock closed at \$14.65. The following table provides information on the high and low prices for our common stock on the NYSE and the dividends declared since our initial public offering on January 31, 2005 through December 31, 2006:

|   | <b>High</b> | <b>Low</b> | <b>Distributions<br/>Declared</b> |
|---|-------------|------------|-----------------------------------|
| Period from January 31, 2005 through March 31, 2005 | 17.66       | 16.00      |                                   |
| Three months ended June 30, 2005                    | 18.75       | 15.57      | 0.19                              |
| Three months ended September 30, 2005               | 20.34       | 16.40      | 0.30                              |
| Three months ended December 31, 2005                | 16.63       | 12.17      | 0.30                              |
| Three months ended March 31, 2006                   | 15.83       | 12.81      | 0.30                              |
| Three months ended June 30, 2006                    | 16.65       | 14.02      | 0.30                              |
| Three months ended September 30, 2006               | 16.85       | 13.60      | 0.30                              |
| Three months ended December 31, 2006                | 16.15       | 14.41      | 0.21                              |

**Direct stock purchase and dividend reinvestment plan**

On July 31, 2006, we implemented the direct stock purchase and dividend reinvestment plan which offers the following:

automatic reinvestment of some or all of the cash distributions paid on common stock, shares of other classes of stock that we might issue in the future and units of limited partnership interest;

an opportunity to make an initial purchase of our common stock and to acquire additional shares over time;

safekeeping of shares and accounting for distributions received and reinvested at no cost

Shares of common stock purchased under the plan will be either issued by EDR or acquired directly from third parties in the open market or in privately negotiated transactions. The purchase price per share of common stock acquired on any particular investment date will not be less than 95% of the average high and low sales price per share of the common stock on the NYSE on that particular day. We will determine the source of shares available through the plan based on market conditions, relative transaction costs and our need for additional capital. To the extent the plan acquires shares of common stock directly from EDR, we will receive additional capital for general corporate purposes.

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**COMPARISON OF 23 MONTH CUMULATIVE TOTAL RETURN \***

Among Education Realty Trust, The S & P 500 Index  
And The MSCI US REIT Index

\* \$100 invested on 1/26/05 in stock or on 12/31/04 in index-including reinvestment of dividends. Fiscal year ending December 31.

|                               |               |               |
|-------------------------------|---------------|---------------|
|                               | <b>12/05</b>  | <b>12/06</b>  |
| <b>Education Realty Trust</b> | <b>78.36</b>  | <b>89.79</b>  |
| <b>S &amp; P 500</b>          | <b>104.91</b> | <b>121.48</b> |
| <b>MSCI US REIT</b>           | <b>112.13</b> | <b>152.41</b> |

We cannot assure you that your share performance will continue into the future with the same or similar trends depicted in the graph above. We will not make or endorse any predictions as to its future share performance.

The performance comparisons noted in the graph shall not be deemed incorporated by reference by any general statement incorporating by reference this Annual Report on Form 10-K into any filing under the Securities Act of 1933 or under the Securities Exchange Act of 1934, except to the extent that we specifically incorporate this graph by reference, and shall not otherwise be deemed filed under such acts.

The following table provides information with respect to compensation plans under which our equity securities are authorized for issuance as of December 31, 2006.

|  | <b>Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants and Rights(1)</b> | <b>Weighted Average Exercise Price of Outstanding Options Warrants and Rights(1)</b> | <b>Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans</b> |
|--|---|--|---|
| Equity compensation plans approved by security holders     | N/A   | N/A  | 688,000   |
| Equity compensation plans not approved by security holders | N/A   | N/A  | N/A   |
| Total  | N/A   | N/A  | 688,000   |

(1) Does not include 192,000 shares of restricted stock that are subject to vesting requirements which were issued through



EDR s 2004  
Incentive Plan.

**Recent Sales of Unregistered Securities**

For the year ended December 31, 2006, we issued 22,500 profits interest units to employees and 4,000 restricted shares to officers that vested immediately. The issuance of these units was made in reliance upon exemptions from registration provided by Section 4(2) under the Securities Act and Rule 506 of Regulation D thereunder.

**Item 6. *Selected Financial Data.***

We have not presented historical information for EDR prior to the completion of the IPO because we did not have material

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corporate operating activity during the period from our formation until the closing of our IPO.

The following table sets forth selected financial and operating data on a consolidated historical basis for EDR and on a combined historical basis for the EDR Predecessor. For the periods presented prior to our IPO, the historical combined financial information for the EDR Predecessor includes:

the student housing operations of Education Properties Trust, LLC (including the properties referred to as Northpointe, The Reserve at Athens, The Reserve at Clemson and Players Club)

the student housing operations of the properties referred to as the Gables, College Station and University Towers, and

the third party management and development consulting service operations and real estate operations of Allen & O Hara Education Services, LLC

The results of operations for the year ended December 31, 2005 represent the combined historical operations of the EDR Predecessor for the period January 1, 2005 through January 30, 2005 as well as the consolidated historical operations of EDR for the year ended December 31, 2005.

The following information presented below does not provide all of the information contained in our financial statements, including related notes. You should read the information below in conjunction with the historical consolidated and combined financial statements and related notes and Management's Discussion and Analysis of Financial Condition and Results of Operations, included elsewhere in this Annual Report on Form 10-K.

**STATEMENT OF OPERATIONS DATA**

|   | <b>Education Realty<br/>Trust, Inc.</b> |                                |             | <b>EDR<br/>Predecessor</b> |             |
|---|---|--------------------------------|-------------|----------------------------|-------------|
|   | <b>2006</b>                             | <b>Year Ended December 31,</b> |             | <b>2003</b>                | <b>2002</b> |
|   |   | <b>2005</b>                    | <b>2004</b> |                            |             |
|   |   | <b>(In thousands)</b>          |             |                            |             |
| Revenues:                                   |   |                                |             |                            |             |
| Student housing leasing revenue             | \$ 87,438                               | \$ 75,877                      | \$ 17,896   | \$ 17,095                  | \$ 19,139   |
| Student housing food service revenue        | 3,634                                   | 3,491                          | 3,137       | 2,879                      |             |
| Other leasing revenue                       | 14,012                                  |                                |             |                            |             |
| Third-party development consulting services | 3,773                                   | 1,759                          | 392         | 691                        | 1,444       |
| Third-party management revenue              | 2,796                                   | 1,968                          | 1,326       | 1,026                      | 784         |
| Operating expense reimbursements            | 7,638                                   | 6,694                          | 5,223       | 4,438                      | 3,345       |
| Total revenues                              | 119,291                                 | 89,789                         | 27,974      | 26,129                     | 24,712      |
| Operating expenses:                         |   |                                |             |                            |             |
| Student housing leasing operations          | 42,669                                  | 37,794                         | 7,645       | 7,408                      | 9,212       |
| Student housing food service operations     | 3,318                                   | 3,275                          | 2,899       | 2,645                      |             |
| Reimbursable operating expenses             | 7,638                                   | 6,694                          | 5,223       | 4,438                      | 3,345       |
| General and administrative                  | 12,331                                  | 12,549                         | 3,545       | 3,425                      | 3,242       |
| Depreciation and amortization               | 36,083                                  | 29,168                         | 3,120       | 3,061                      | 3,324       |

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|  |             |             |        |        |        |
|--|-------------|-------------|--------|--------|--------|
| Total operating expenses                                     | 102,039     | 89,480      | 22,432 | 20,977 | 19,123 |
| Operating income   | 17,252      | 309         | 5,542  | 5,152  | 5,589  |
| Nonoperating expense   | 29,933      | 17,266      | 5,786  | 5,771  | 5,715  |
| Loss before equity in earnings of unconsolidated entities    | (12,681)    | (16,957)    | (244)  | (619)  | (126)  |
| Equity in earnings of unconsolidated entities                | 740         | 880         | 1,002  | 629    | 128    |
| Income (loss) before income taxes and minority interest      | (11,941)    | (16,077)    | 758    | 10     | 2      |
| Taxes  | 659         | 497         |        |        |        |
| Income (loss) before minority interest                       | (12,600)    | (16,574)    | 758    | 10     | 2      |
| Minority interest  | (355)       | (1,040)     |        |        |        |
| Net income (loss)  | \$ (12,245) | \$ (15,534) | \$ 758 | \$ 10  | \$ 2   |
| <b>Earnings per share information:</b>                       |             |             |        |        |        |
| Loss per share basic and diluted                             | \$ (0.46)   | \$ (0.67)   |        |        |        |
| Weighted average common shares outstanding basic and diluted | 26,387,547  | 23,063,110  |        |        |        |
| Distributions per common share                               | \$ 1.10     | \$ 0.79     |        |        |        |

**Table of Contents****BALANCE SHEET DATA**

|                                 | As of December 31,              |            |                    |           |           |
|---------------------------------|---------------------------------|------------|--------------------|-----------|-----------|
|                                 | Education Realty<br>Trust, Inc. |            | EDR<br>Predecessor |           |           |
|                                 | 2006                            | 2005       | 2004               | 2003      | 2002      |
|                                 | (In thousands)                  |            |                    |           |           |
| Assets:                         |                                 |            |                    |           |           |
| Student housing properties, net | \$ 804,759                      | \$ 620,305 | \$ 83,785          | \$ 86,388 | \$ 88,900 |
| Other assets, net               | 30,699                          | 83,744     | 5,089              | 5,536     | 5,315     |
| Total assets                    | \$ 835,458                      | \$ 704,049 | \$ 88,874          | \$ 91,924 | \$ 94,215 |
| Liabilities and equity:         |                                 |            |                    |           |           |
| Mortgage notes payable          | \$ 423,933                      | \$ 328,335 | \$ 81,111          | \$ 82,204 | \$ 82,959 |
| Other Indebtedness              | 69,400                          |            |                    |           |           |
| Other liabilities               | 19,837                          | 17,255     | 5,974              | 7,225     | 5,798     |
| Total liabilities               | 513,170                         | 345,590    | 87,085             | 89,429    | 88,757    |
| Minority interest               | 19,289                          | 27,926     |                    |           |           |
| Equity (deficit)                | 302,999                         | 330,533    | 1,789              | 2,495     | 5,458     |
| Total liabilities and equity    | \$ 835,458                      | \$ 704,049 | \$ 88,874          | \$ 91,924 | \$ 94,215 |

**OTHER DATA (UNAUDITED)**

|  | As of December 31,   |             |                    |          |          |
|--|--|-------------|--------------------|----------|----------|
|  | Education Realty<br>Trust, Inc.                                    |             | EDR<br>Predecessor |          |          |
|  | 2006   | 2005        | 2004               | 2003     | 2002     |
|  | (In thousands, except per share and selected property information) |             |                    |          |          |
| Funds from operations (FFO)  |  |             |                    |          |          |
| (1):   |  |             |                    |          |          |
| Net income (loss)  | \$ (12,245)  | \$ (15,534) | \$ 758             | \$ 10    | \$ 2     |
| Plus student housing property depreciation and amortization of lease intangibles | 35,728   | 29,168      | 3,120              | 3,061    | 3,324    |
| Equity portion of real estate depreciation and amortization on equity investees  | 54   |             |                    |          |          |
| Minority interest benefit  | (355)  | (1,040)     |                    |          |          |
| Funds from operations available to all share and unitholders                     | \$ 23,182  | \$ 12,594   | \$ 3,878           | \$ 3,071 | \$ 3,326 |
| Cash flow information:   |  |             |                    |          |          |
| Net cash provided by operations  | \$ 25,187  | \$ 18,373   | \$ 3,068           | \$ 4,309 | \$ 3,392 |
| Net cash used in investing   | (120,830)  | (200,157)   | (181)              | (925)    | (42,982) |
|  | 40,408   | 243,445     | (2,480)            | (3,658)  | 38,951   |

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Net cash provided by (used in)  
financing

Per share and distribution data:

Net loss per share basic and  
diluted

|    |        |    |        |    |         |    |  |    |
|----|--------|----|--------|----|---------|----|--|----|
| \$ | (0.46) | \$ | (0.67) | \$ | (2,220) | \$ |  | \$ |
|----|--------|----|--------|----|---------|----|--|----|

Cash distributions declared per  
share/unit

|  |      |  |      |
|--|------|--|------|
|  | 1.10 |  | 0.79 |
|--|------|--|------|

Cash distributions declared

|  |        |  |        |
|--|--------|--|--------|
|  | 29,114 |  | 18,721 |
|--|--------|--|--------|

Selected property information

(2):

|       |       |       |       |       |       |
|-------|-------|-------|-------|-------|-------|
| Units | 6,400 | 6,186 | 1,146 | 1,146 | 1,146 |
|-------|-------|-------|-------|-------|-------|

|      |        |        |       |       |       |
|------|--------|--------|-------|-------|-------|
| Beds | 20,125 | 19,501 | 3,896 | 3,896 | 3,896 |
|------|--------|--------|-------|-------|-------|

|               |       |       |       |       |       |
|---------------|-------|-------|-------|-------|-------|
| Occupancy (3) | 93.3% | 92.2% | 89.2% | 85.1% | 87.6% |
|---------------|-------|-------|-------|-------|-------|

|                               |        |        |        |        |        |
|-------------------------------|--------|--------|--------|--------|--------|
| Revenue per available bed (4) | \$ 367 | \$ 366 | \$ 421 | \$ 406 | \$ 400 |
|-------------------------------|--------|--------|--------|--------|--------|

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- (1) As defined by the National Association of Real Estate Investment Trusts ( NAREIT ), 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 available to all shareholders and unitholders 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. As such, we also exclude the impact of minority interest in our calculation.

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.

- (2) The selected property information represents all 27 and 26 owned and operated properties for 2006 (excluding the Place Portfolio) and 2005, respectively. Previous to 2004 the data represents the seven properties owned by the EDR Predecessor, which are NorthPointe, The Reserve at Athens, The Reserve at Clemson, Players Club, The Gables, College Station and University Towers.

- (3) Average of the month-end



occupancy rates  
for the period.

- (4) Revenue per available bed is equal to the total revenue divided by the sum of the design beds (including staff and model beds) at the property each month. Revenue and design beds for any acquired property is included prospectively from acquisition date.

**Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.**  
**(Dollars in thousands, except selected property information and share data)**

*The following discussion should be read in conjunction with the financial statements and notes thereto appearing elsewhere in this report. Where appropriate, the following discussion includes analysis of the effects of our initial public offering and the formation transactions. We make statements in this section that are forward-looking statements, see the section of this Form 10-K report entitled Forward-Looking Statements. Certain risk factors may cause our actual results, performance or achievements to differ materially from those expressed or implied by the following discussion. For a discussion of such risk factors, see the sections of this Form 10-K report entitled Risk Factors and Forward-Looking Statements.*

**Overview**

We are a self-managed and self-advised 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 total beds owned and under management.

We were formed to continue and expand upon the student housing business of the EDR Predecessor, which commenced in 1964. We did not commence operations until the completion of our initial public offering, which occurred on the Closing Date. The historical operations prior to the Closing Date that are described in this report refer to the operations of the EDR Predecessor. We have described our operations in this report as if the historical operations of the EDR Predecessor were conducted by us. Where appropriate, the following discussion includes an analysis of the completion of our initial public offering and certain matters that have occurred following the completion of our initial public offering.

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. While we manage most of the properties we own, we do 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**

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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 summary of significant accounting policies in the footnotes to the financial statements. Inter-company fees are reflected at the contractually stipulated amounts.

***Student Housing Leasing***

Student housing leasing revenue represented approximately 94.1% of our revenue, excluding operating expense reimbursements, for the twelve months ended December 31, 2006. Our revenue related to food service operations at two locations is included in this segment. Additionally this segment includes other leasing revenue related to the Place Portfolio lease.

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 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 tends to offer fewer amenities.

The majority 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 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. In 2006 and 2005, approximately 68.3% and 69.9%, 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 typically stable during the August to July academic year but are susceptible to fluctuation at the commencement of each new academic year.

Prior to the commencement of each new lease period, mostly during the first two weeks of August but also during September at some communities, we prepare the units for new incoming tenants. Other than revenue generated by in-place leases for returning tenants, we do not generally recognize lease revenue during this period referred to as

Turn as we have no leases in place. In addition, during Turn we incur significant expenses making our units ready for occupancy, which we recognize immediately. This lease Turn period 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 2.5% of our revenue for the twelve months ended December 31, 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 properties' owners. These costs are referred to as 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 approximately 3.4% of our revenue for the twelve months ended December 31, 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. We incur expenses that are reimbursable by a project when awarded. We recognize the expenses when incurred, while the reimbursement revenue is not recognized until the consulting contract is awarded. 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. Also at

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times we will pay pre-development project 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.

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.

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

As a result of becoming a public company in January 2005, we experienced significant increases in payroll, 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, as well as other cost that are unique to being a public company. We also experienced increases in 2006 due to continued growth in payroll and the additional costs associated with formulating and documenting our internal control systems and implementation of the Sarbanes Oxley Act of 2002. For the year ended December 31, 2006 the costs related to documenting our internal control systems and implementation of the Sarbanes Oxley Act of 2002 totaled approximately \$850.

### **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. It is possible that 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 revenue related to the leasing activities at the student housing properties and includes revenues from the leasing of space, parking lot rentals and certain ancillary services. Also included in this segment is revenue from our food service operations and other leasing revenue related to the Place Portfolio lease.

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.

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

We provide 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. This contract was terminated effective December 31, 2006. Additionally, we maintain 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 such time as we have been notified of a contract award or reimbursement has been 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 are 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, 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 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* , and accordingly, the results of operations are included in the results of operations from the respective dates of acquisition. 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. Independent appraisals, obtained at the time of the original acquisition by the owners of the properties we acquired in our formation transactions, 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.

***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 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.

*Long Lived Assets    Impairment*

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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.

**Results of Operations for the Years Ended December 31, 2006 and 2005**

The following table presents our results of operations for Education Realty Trust, Inc. for the year ended December 31, 2006 and the combined results of operations for Education Realty Trust, Inc. (post Offering) and the EDR Predecessor (pre Offering) for the year ended December 31, 2005:

|   | Year Ended December 31, 2006 |   |                                 |             |           | Year Ended December 31, 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     |
|   | (In thousands)               |   |                                 |             |           |                              |   |                                 |             |           |
| <b>Revenues:</b>                            |                              |   |                                 |             |           |                              |   |                                 |             |           |
| Student housing leasing revenue             | \$ 87,438                    | \$  | \$                              | \$          | \$ 87,438 | \$ 75,877                    | \$  | \$                              | \$          | \$ 75,877 |
| Student housing food service revenue        | 3,634                        |   |                                 |             | 3,634     | 3,491                        |   |                                 |             | 3,491     |
| Other leasing revenue                       | 14,012                       |   |                                 |             | 14,012    |                              |   |                                 |             |           |
| Third-party development consulting services |                              | 3,773                                       |                                 |             | 3,773     |                              | 1,759                                       |                                 |             | 1,759     |
| Third-party management services             |                              |   | 2,796                           |             | 2,796     |                              |   | 1,968                           |             | 1,968     |
| Intersegment revenues                       |                              |   | 3,544                           | (3,544)     |           |                              |   | 2,644                           | (2,644)     |           |
| Operating expense reimbursements            |                              |   |                                 | 7,638       | 7,638     |                              |   |                                 | 6,694       | 6,694     |
| Total revenues                              | 105,084                      | 3,773                                       | 6,340                           | 4,094       | 119,291   | 79,368                       | 1,759                                       | 4,612                           | 4,050       | 89,789    |
| <b>Operating expenses:</b>                  |                              |   |                                 |             |           |                              |   |                                 |             |           |
| Student housing leasing operations          | 42,669                       |   |                                 |             | 42,669    | 37,794                       |   |                                 |             | 37,794    |
| Student housing food service operations     | 3,318                        |   |                                 |             | 3,318     | 3,275                        |   |                                 |             | 3,275     |



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|  |            |          |          |       |            |             |        |         |       |            |
|--|------------|----------|----------|-------|------------|-------------|--------|---------|-------|------------|
| General and administrative Intersegment expenses   | 2,210      | 5,004    |          | 7,214 |            | 2,245       | 3,969  |         | 6,214 |            |
| Reimbursable operating expenses  | 3,544      |          | (3,544)  |       | 2,644      |             |        | (2,644) |       |            |
|  |            |          | 7,638    | 7,638 |            |             |        | 6,694   | 6,694 |            |
| Total operating expenses   | 49,531     | 2,210    | 5,004    | 4,094 | 60,839     | 43,713      | 2,245  | 3,969   | 4,050 | 53,977     |
| Net operating income (loss)  | 55,553     | 1,563    | 1,336    |       | 58,452     | 35,655      | (486)  | 643     |       | 35,812     |
| Nonoperating expenses(1)   | 64,708     |          |          |       | 64,708     | 46,578      | (6)    |         |       | 46,572     |
| Income (loss) before equity in earnings of unconsolidated entities, income taxes and minority interest | (9,155)    | 1,563    | 1,336    |       | (6,256)    | (10,923)    | (480)  | 643     |       | (10,760)   |
| Equity in earnings of unconsolidated entities  | (74)       | 814      |          |       | 740        |             | 880    |         |       | 880        |
| Income (loss) before taxes and minority interest(2)  | \$ (9,229) | \$ 2,377 | \$ 1,336 | \$    | \$ (5,516) | \$ (10,923) | \$ 400 | \$ 643  | \$    | \$ (9,880) |

(1) Nonoperating expenses include interest expense, interest income, 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 income (loss) before income taxes and minority interest to EDR's consolidated net income (loss) before income taxes and minority interest determined under generally accepted accounting principles:

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|  | <b>2006</b> | <b>2005</b> |
|--|-------------|-------------|
| Net income (loss) before taxes and minority interest for reportable segments | \$ (5,516)  | \$ (9,880)  |
| Unallocated corporate amounts:   |             |             |
| Noncash compensation charge for PIU s and restricted stock                   | (796)       | (4,679)     |
| Other corporate expenses   | (5,629)     | (1,518)     |
| Net income (loss) before income taxes and minority interest                  | \$ (11,941) | \$ (16,077) |

**Student housing leasing**

Overall average physical occupancy and Revenue per Available Bed ( RevPAB ) for the years ended December 31, 2006 and 2005 were as follows:

|                                 | <b>Year ended<br/>December<br/>31, 2006</b> | <b>Year ended<br/>December<br/>31, 2005</b> | <b>Difference</b> |
|---------------------------------|---|---|-------------------|
| Occupancy                       |   |   |                   |
| Physical (1)                    | 93.3%                                       | 92.2%                                       | 1.1%              |
| Economic (2)                    | 91.2%                                       | 90.5%                                       | 0.7%              |
| NarPAB (3)                      | \$ 343                                      | \$ 340                                      | \$ 3              |
| Other income per avail. bed (4) | \$ 24                                       | \$ 26                                       | \$ (2)            |
| RevPAB (5)                      | \$ 367                                      | \$ 366                                      | \$ 1              |
| Operating expense per bed (6)   | \$ 179                                      | \$ 182                                      | \$ (3)            |
| Operating margin                | 51.2%                                       | 50.2%                                       | 1%                |
| Design Beds (7)                 | 238,380                                     | 207,355                                     | 31,025            |

(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 management fees, 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 increased \$25,716 to \$105,084 for the year ended December 31, 2006. This 32.4% increase in revenue from the same period in 2005 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 year ended December 31, 2006 increased 31,025 beds or 15.0% over the same period last year to 238,380 beds. At current RevPAB rates this acquisition driven increase in beds represents about \$11,400 of the increased revenue for the year ended December 31, 2006, while growth in same community revenue contributed approximately \$400. 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 contributed \$14,012 of revenue for the year ended December 31, 2006, including the recognition of \$274 of Additional Rent, as defined in the lease agreement. Student housing food service revenue was relatively flat at about \$3,600. Approximately \$1,400 of student housing food service revenue was related to a contract to provide food service to a secondary boarding school in California. This contract was terminated effective December 31, 2006.

Operating expenses of our student housing communities increased \$5,818 to \$49,531 for the year ended December 31, 2006. Expense growth of approximately \$4,900 is attributable to increased beds by way of acquisition as discussed above. Same store operating expenses year over year were held relatively flat mainly as a result of improvements in turn costs and bad debt expense along with other improvements that combined to offset higher utility costs and property taxes for the period. Intersegment expenses, which represent management fees paid to our management company increased just over \$900 as a result of acquired beds and higher revenue.

The net impact of the growth in revenue and expenses noted above was a 55.8% rise in net operating income for the segment to \$55,553 for the year ended December 31, 2006. As noted a majority of the growth came through acquisition and the addition of other leasing revenue related to the Place Portfolio which drove an increase in operating margins from 44.9% to 52.9% for the segment.

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However, we also attained good growth in our owned and operated properties, excluding the 13 properties leased to Place Properties, with margins improving from 50.2% to 51.2%.

**Third-party development consulting services**

The following table represents the development consulting projects that were active during the years ended December 31, 2006 and 2005:

| Project  | Beds  | Fee Type               | Recognized Earnings |         |            |
|--|-------|------------------------|---------------------|---------|------------|
|  |       |                        | 2006                | 2005    | Difference |
| Slippery Rock University Phase I               | 1,390 | Development fee        | \$1,787             | \$ 887  | \$ 900     |
| Indiana University of Pennsylvania             | 734   | Development fee        | 924                 |         | 924        |
| University of Michigan                         | 849   | Development fee        | 567                 |         | 567        |
| Auraria Higher Education System                | 685   | Development fee        |                     | 365     | (365)      |
| Calhoun Street                                 |       | Purchasing fee         |                     | 306     | (306)      |
|  |       | Construction oversight | 105                 |         | 105        |
| University of North Carolina Greensboro        | 600   | fee                    |                     |         |            |
|  |       | Construction oversight | 59                  | 41      | 18         |
| University of Louisville Phase III             | 359   | fee                    |                     |         |            |
|  |       | Construction oversight | 61                  | 160     | (99)       |
| University of Alabama Birmingham               | 753   | fee                    |                     |         |            |
| University of Alabama Tuscaloosa               | 631   | Development fee        | 257                 |         | 257        |
| Other  |       | Consulting fee         | 13                  |         | 13         |
| Third-party development consulting services    |       |                        | \$3,773             | \$1,759 | \$ 2,014   |
| California University of Pennsylvania Phase IV | 447   | Development fee        | \$ 173              | \$ 156  | \$ 17      |
| California University of Pennsylvania Phase V  | 354   | Development fee        | 143                 |         | 143        |
| University of North Carolina Greensboro        | 600   | Development fee        | 240                 |         | 240        |
| Bloomsburg University                          | 407   | Development fee        |                     | 239     | (239)      |
| University of Louisville Phase III             | 359   | Development fee        | 126                 | 100     | 26         |
| University of Alabama Birmingham               | 753   | Development fee        | 132                 | 357     | (225)      |
| Other  |       | Development fee        |                     | 28      | (28)       |
| Equity in earnings of unconsolidated entities  |       |                        | \$ 814              | \$ 880  | \$ (66)    |

Third-party development services revenues increased by \$2,014 to \$3,773 for the year ended December 31, 2006 from \$1,759 for the year ended December 31, 2005. During 2006 we were engaged in four active development projects representing 3,604 beds and recognized construction oversight fees on an additional 3 projects. During the same period in 2005 we recognized development fees on two projects, recognized \$306 of purchasing fees related to a third project, and recognized construction oversight fees on another two projects. 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 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 just over \$800 for the years ended December 31, 2006 and 2005. During 2006 there were five projects underway representing 2,513 beds while four projects representing 1,996 beds were being managed through joint ventures in 2005.

General and administrative costs in the third-party development consulting services was held relatively flat year over year at just over \$2,200 for the years ended December 31, 2006 and 2005.

***Third-party management services***

Third-party management services revenues increased \$828 to \$2,796 for the year ended December 31, 2006 from



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\$1,968 million for the year ended December 31, 2005. Growth in our owned portfolio year over year contributed just over \$900 of the increase by way of intersegment revenue. Aggregate design beds in our owned portfolio for the year ended December 31, 2006 were 238,380 which is an increase of 31,025 aggregate beds from the same period in the prior year. The opening of three new managed properties in August and September of 2005 and the addition of a new management contract in September 2005 contributed \$378 of additional revenue year over year. Three third-party development communities opening during the summer of 2006 added \$328 to 2006 revenue. Management services provided to three properties acquired in the fall of 2006 through joint venture arrangements contributed \$67 of management fees in 2006 and our management company subsidiary earned approximately \$100 in preopening management support fees related to two communities while under development. Offsetting these increases was a decline of \$150 as a result of the termination of two management agreements during the summer of 2006.

General and administrative costs for our third-party management services increased \$1,035 to \$5,004 for the year ended December 31, 2006. This increase is a direct result of the growth in both our owned and managed portfolios as discussed above. Our owned portfolio grew from 21 properties at the start of 2005 to 27 properties at the end of 2006. In addition the third-party management services group added a total of ten new properties to its managed portfolio since the spring of 2005, while two contracts were terminated. Additional growth in general and administrative expenses occurred due to a higher overhead burden as a result of the overall growth of the company.

***Nonoperating expenses***

Nonoperating expenses increased \$18,130 to \$64,708 for the year ended December 31, 2006. The increase is driven by approximately \$12,453 of additional interest expense and \$6,830 of additional depreciation and amortization related mainly to the acquisition of the 13 properties from Place properties in January 2006 and a full twelve 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 pressures on interest expense as a result of recent acquisitions as well as the potential of continued increases in interest rates. However, we also plan on paying down our variable rate debt with excess cash in 2007.

***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 year ended December 31, 2006 other corporate expenses were \$5,629, an increase of \$4,111 over the prior year. Corporate related net interest expense was approximately \$300 in 2006 compared to net interest income of approximately \$900 in 2005. The change is a result of higher than usual interest income in the second half of 2005 related to uninvested funds from our private equity offering in September 2005. In 2006 the private equity offering funds were used in the acquisition of the Place Portfolio and additional interest expense was incurred as funds were drawn on our revolving credit facility to partially fund distributions to our shareholders. General and administrative expenses increased approximately \$2,800 mainly due to increased salaries and staffing costs and \$850 related to the first year costs of implementing the Sarbanes-Oxley Act of 2002.

Noncash compensation expense for the year ended December 31, 2006 was \$796 compared to \$4,679 for the year ended December 31, 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 \$3,883 from 2005 is due to a one-time charge related to our Offering that occurred in January 2005 when fully vested awards were granted.

**Results of Operations for the years ended December 31, 2005 and 2004**

The following table presents our combined results of operations for Education Realty Trust, Inc. (post Offering) and the EDR Predecessor (pre Offering) for the year ended December 31, 2005 and the combined results of operations for the EDR Predecessor for the year ended December 31, 2004:

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|   | Year Ended December 31, 2005 |   |                                 |              |               | Year Ended December 31, 2004 |   |                                 |              |               |
|---|------------------------------|---|---------------------------------|--------------|---------------|------------------------------|---|---------------------------------|--------------|---------------|
|   | 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             | \$ 75,877                    | \$  | \$                              | \$           | \$ 75,877     | \$ 17,896                    | \$  | \$                              | \$           | \$ 17,896     |
| Student housing food service revenue        | 3,491                        |   |                                 |              | 3,491         | 3,137                        |   |                                 |              | 3,137         |
| Third-party development consulting services |                              | 1,759                                       |                                 |              | 1,759         |                              | 392   |                                 |              | 392           |
| Third-party management services             |                              |   | 1,968                           |              | 1,968         |                              |   | 1,326                           |              | 1,326         |
| Intersegment revenues                       |                              |   | 2,644                           | (2,644)      |               |                              |   | 973                             | (973)        |               |
| Operating expense reimbursements            |                              |   |                                 | 6,694        | 6,694         |                              |   |                                 | 5,223        | 5,223         |
| <b>Total revenues</b>                       | <b>79,368</b>                | <b>1,759</b>                                | <b>4,612</b>                    | <b>4,050</b> | <b>89,789</b> | <b>21,033</b>                | <b>392</b>                                  | <b>2,299</b>                    | <b>4,250</b> | <b>27,974</b> |
| <b>Operating expenses:</b>                  |                              |   |                                 |              |               |                              |   |                                 |              |               |
| Student housing leasing operations          | 37,794                       |   |                                 |              | 37,794        | 7,645                        |   |                                 |              | 7,645         |
| Student housing food service operations     | 3,275                        |   |                                 |              | 3,275         | 2,899                        |   |                                 |              | 2,899         |
| General and administrative                  |                              | 2,245                                       | 3,969                           |              | 6,214         |                              | 1,329                                       | 2,216                           |              | 3,545         |
| Intersegment expenses                       | 2,644                        |   |                                 | (2,644)      |               | 973                          |   |                                 | (973)        |               |
| Reimbursable operating expenses             |                              |   |                                 | 6,694        | 6,694         |                              |   |                                 | 5,223        | 5,223         |
| <b>Total operating expenses</b>             | <b>43,713</b>                | <b>2,245</b>                                | <b>3,969</b>                    | <b>4,050</b> | <b>53,977</b> | <b>11,517</b>                | <b>1,329</b>                                | <b>2,216</b>                    | <b>4,250</b> | <b>19,312</b> |
| <b>Net operating income (loss)</b>          | <b>35,655</b>                | <b>(486)</b>                                | <b>643</b>                      |              | <b>35,812</b> | <b>9,516</b>                 | <b>(937)</b>                                | <b>83</b>                       |              | <b>8,662</b>  |

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|  |             |        |        |            |        |       |       |        |
|--|-------------|--------|--------|------------|--------|-------|-------|--------|
| Nonoperating expenses(1)   | 46,578      | (6)    |        | 46,572     | 8,906  |       |       | 8,906  |
| Income (loss) before equity in earnings of unconsolidated entities, income taxes and minority interest | (10,923)    | (480)  | 643    | (10,760)   | 610    | (937) | 83    | (244)  |
| Equity in earnings of unconsolidated entities  |             | 880    |        | 880        |        | 1,002 |       | 1,002  |
| Income (loss) before taxes and minority interest(2)  | \$ (10,923) | \$ 400 | \$ 643 | \$ (9,880) | \$ 610 | \$ 65 | \$ 83 | \$ 758 |

(1) Non operating 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 income (loss) before income taxes and minority interest to the Trust s consolidated net income

(loss) before  
income taxes  
and minority  
interest  
determined  
under generally  
accepted  
accounting  
principles:

|  | <b>2005</b> | <b>2004</b> |
|--|-------------|-------------|
| Net income (loss) before taxes and minority interest for reportable segments | \$ (9,880)  | \$ 758      |
| Unallocated corporate amounts:   |             |             |
| Noncash compensation charge for PIU s and restricted stock                   | (4,679)     |             |
| Other corporate expenses   | (1,518)     |             |
| Net income (loss) before income taxes and minority interest                  | \$ (16,077) | \$ 758      |

***Student housing leasing***

Revenue from student housing leasing increased by \$58,300 to \$79,400 for the year ended December 31, 2005. This increase was due largely to the acquisition of the 14 JPI properties upon consummation of our Offering and the incremental impact relating to five new properties acquired since the Offering. Our base portfolio of EDR Predecessor properties experienced a decrease in revenue per available bed over the comparable period of 2004. Part of the decrease was due to a drop in occupancy at two of our properties as a result of increased supply around the universities. In addition we had a planned drop in rates at our University Towers property designed to reverse a negative trend in occupancy experienced during the 04- 05 academic year. This rate adjustment along with a focused marketing effort has successfully reversed the trend at University Towers resulting in occupancy at the beginning of the current lease term of approximately 95% compared to 88% a year earlier.

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Operating expenses of our student housing communities increased \$32,200 to \$43,700 for the year ended December 31, 2005. The majority of this increase was also due to the addition of the 14 JPI properties and the incremental impact relating to the five new properties as described above. However, the growth in operating expenses outpaced revenue growth year over year. Higher than anticipated utility costs, turn costs, bad debt expense, and student amenity costs contributed to operating expenses, excluding intersegment charges, as a percentage of revenue to increase. The higher utility costs are a result of current economic conditions, however, management has begun instituting energy conservation programs in an effort to control these costs as much as possible. The increase in student amenities is mostly the result of additional costs to meet student demand for better and faster internet capabilities. Management anticipates continued challenges managing these costs in the future. The increased costs related to turn and bad debt expense are considered by management to be one time issues related to acquired properties and their assimilation into our operating structure. While higher than normal bad debt charges were a cost of transitioning the properties, management believes the additional turn costs incurred were necessary to position the properties appropriately in the market and view them as an investment in the future leasing success of the properties.

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

Third-party development services revenues increased by \$1,400 to \$1,800 for the year ended December 31, 2005 from \$400 for the year ended December 31, 2004. This increase relates to revenue recognized on four projects in 2005 compared to one project during the same period in 2004.

A portion of our third-party development consulting services have been conducted through joint venture arrangements, and the related fees recognized as equity in earnings of unconsolidated entities. Equity in earnings of unconsolidated entities decreased by \$100 to \$900 for the year ended December 31, 2005 from \$1,000 for the year ended December 31, 2004. This decrease was primarily due to more of our projects being contracted directly with the universities and is reflected in the increase in third-party development services revenue. There were two projects with a total of 1,160 beds under development through joint ventures during 2005 compared to four projects with a total of 2,076 beds during the same period in 2004.

General and administrative costs in the third-party development consulting services increased \$1,100 to \$2,200 for the year ended December 31, 2005. General and administrative expenses increased as a result of the higher volume of development projects and an expansion of the department. Additional growth in general and administrative expenses occurred due to a higher overhead burden as a result of the overall growth of the company and its entry into the public market.

***Third-party management services***

Third-party management services revenues increased by \$2,300 to \$4,600 for the year ended December 31, 2005 from \$2,300 for the year ended December 31, 2004. Revenue increased \$1,700 due to intersegment charges to owned properties as a result of the growth in our portfolio from seven to twenty-six properties. Third-party revenue increased \$600 year over year as a result of 2005 benefiting from a full year of management fees on four managed properties consisting of 2,096 beds that opened in Fall 2004, the opening of 3 new managed properties in August and September of 2005 and a new management contract for a 632 bed facility at the University of Texas in September 2005.

General and administrative costs for our third-party management services increased \$1,800 to \$4,000 for the year ended December 31, 2005. This increase is a direct result of the extraordinary growth in both our owned and managed portfolios as discussed above. Our owned portfolio grew from 7 properties to 26 properties through our Offering and Formation transactions as well as our 2005 acquisition program. In addition the third-party management services group added a total of eight new properties to its managed portfolio since summer 2004. Additional growth in general and administrative expenses occurred due to a higher overhead burden as a result of the overall growth of the company and its entry into the public market.

***Nonoperating expenses***

Nonoperating expenses increased \$37,700 to \$46,600 for the year ended December 31, 2005. The increase includes \$1,100 in fees on the early retirement of debt but relates substantially to an approximate \$25,900 increase in depreciation and amortization and an approximate \$10,700 dollar increase in mortgage interest expense as a result of the 14 property JPI acquisition and the acquisition of five additional properties during the year.

***Liquidity and Capital Resources***

***Revolving Credit Facility and Other Indebtedness***

On March 31, 2006 the Operating Partnership amended and restated the revolving credit facility, or the Amended Revolver, dated January 31, 2005 in the amount of \$100 million and entered into a senior unsecured term loan facility, or the Term Loan, in the amount of \$50,000. EDR serves as the guarantor for any funds borrowed by the Operating Partnership under the Amended Revolver

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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 December 31, 2006, there was \$22,400 outstanding under the Amended Revolver and \$47,000 outstanding under the Term Loan. The Term Loan is interest only; hence, the entire outstanding balance of \$47,000 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.

EDR 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%.

***Liquidity outlook and capital requirements***

At December 31, 2006 we had \$6,427 of cash, a decrease of approximately \$55,000 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 \$168,060 of debt during 2006 due to the assumption of \$98,660 of mortgage debt in the Place Properties acquisition as well as \$69,400 net draws 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 to cover certain shortfalls in operating cash.

Our current liquidity needs include funds for distributions to our stockholders and unit holders, including those required to maintain our REIT status and satisfy our current annual distribution target of \$0.82 per share/unit, funds for capital expenditures, funds for debt repayment and, potentially, funds for new property acquisitions. We generally expect to meet our short-term liquidity requirements through net cash provided by operations. However, distributions for the last two years outpaced cash from operations during the same period. Distributions to shareholders/unitholders totaled \$20,213 or \$0.79 per weighted average share/unit in 2005 compared to cash from operations of \$18,373 or \$0.74 per weighted average share/unit and distributions in 2006 totaled \$30,875 or \$1.10 per weighted average share/unit compared to cash from operations of \$25,187 or \$0.90 per weighted average share/unit during the same time. The resulting operating cash shortfalls of \$1,840 and \$5,688 for 2005 and 2006, respectively, were funded by draws on our revolving line of credit. Effective with our third quarter 2006 dividend that was paid on November 7, 2006 we adjusted our annual dividend rate from the existing \$1.19 per share/unit down to \$0.82 per share/unit, which is more in line with our current operating cash and FFO levels. We feel this addresses the operating cash shortfalls for the near term and positions us to utilize capital resources for all the funding requirements noted above. We expect our long-term liquidity requirements to be satisfied through growth in 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.

An additional source of capital is the possible disposition of non-core properties. We continually assess all of our properties, the markets they are in, and the universities they serve to determine if any dispositions are necessary or appropriate. The sale of any unencumbered asset would provide additional capital to most likely paydown debt or possibly finance other operational acquisitions or operational needs. Subsequent to December 31, 2006 we entered into agreements with two unrelated parties for the possible sale of two unencumbered assets. At this time there is no certainty that the deals will close as they are still in the due diligence period and no earnest money is yet at risk.



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In 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. Total capital of \$5,994, representing 405,607 shares, was issued during 2006.

Based on our closing share price of \$14.77 on December 31, 2006 our total enterprise value was \$906,138. With total debt outstanding on December 31, 2006 of \$491,025 our current debt to total enterprise value was 54.2%. We believe our capital structure and current FFO and distribution targets along with the \$77,600 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 any acquisitions with working capital and borrowings under first mortgage property secured debt or 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 twelve 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.

***Capital expenditures***

The historical recurring capital expenditures at our owned and managed communities, excluding the 13 properties leased to Place Properties, are set forth below:

|                                      | <b>As of and for the Years Ended</b> |             |             |
|--------------------------------------|--------------------------------------|-------------|-------------|
|                                      | <b>December 31,</b>                  |             |             |
|                                      | <b>2006</b>                          | <b>2005</b> | <b>2004</b> |
| Total units                          | 6,400                                | 5,935       | 895         |
| Total beds                           | 20,125                               | 18,548      | 2,943       |
| Total recurring capital expenditures | \$ 2,222                             | \$ 1,638    | \$ 166      |
| Average per unit                     | \$347.25                             | \$275.96    | \$185.88    |

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|                 |          |          |          |
|-----------------|----------|----------|----------|
| Average per bed | \$110.43 | \$ 88.30 | \$ 56.53 |
|-----------------|----------|----------|----------|

Recurring capital expenditures exclude capital spending on renovations, community repositioning, or other major periodic projects. Capital expenditures associated with newly acquired or developed properties are typically capitalized as part of their

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acquisition price or development budget. As a result such properties typically do not require capital expenditures until their second year of operation or later.

Additionally, we are required by certain of our lenders to contribute contractual amounts annually to reserves for capital repairs and improvements at the mortgaged properties. These contributions may be less than or exceed the amount of capital expenditures actually incurred during any given year at such properties.

**Commitments**

The following table summarizes our contractual obligations as of December 31, 2006:

|   | <b>Less<br/>than<br/>1 Year</b> | <b>1-3<br/>Years</b> | <b>3-5<br/>Years<br/>(In<br/>thousands)</b> | <b>After 5<br/>Years</b> | <b>Total</b>      |
|---|---------------------------------|----------------------|---|--------------------------|-------------------|
| <b>Contractual Obligations:</b>                       |                                 |                      |   |                          |                   |
| Long-Term Debt Obligations(1)                         | \$ 60,158                       | \$ 380,930           | \$ 1,835                                    | \$ 48,102                | \$ 491,025        |
| Contractual Fixed Interest<br>Obligations(2)          | 23,322                          | 38,184               | 9,839                                       | 2,881                    | 74,226            |
| Operating Lease and Future<br>Purchase Obligations(3) | 2,724                           | 4,282                | 3,246                                       | 908                      | 11,160            |
| Capital Reserve Obligations(4)                        | 1,573                           | 2,418                | 421   | 182                      | 4,594             |
| <b>Total</b>  | <b>\$ 87,777</b>                | <b>\$ 425,814</b>    | <b>\$ 15,341</b>                            | <b>\$ 52,073</b>         | <b>\$ 581,005</b> |

(1) Includes required monthly principal amortization and amounts due at maturity on first mortgage debt secured by student housing properties and amounts due under Amended Revolver and Term loan agreements.

(2) Includes contractual fixed rate interest payments.

(3)

Includes future minimum lease commitments under operating lease obligations and future purchase obligations for advertising.

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

**Long-Term Indebtedness**

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, we recognized a charge of \$1,084 in February 2005.

In March 2005, the Operating Partnership assumed an additional \$11,200 of mortgage debt with a fixed interest rate of 4.92% in connection with the acquisition of a student housing property located at the University of South Carolina. In June 2005, the Operating Partnership assumed \$37,526 of additional mortgage debt with a fixed interest rate of 6.97% in connection with the acquisition of a student housing property located near the University of Florida.

In January 2006, the Operating Partnership assumed an additional \$98,660 of mortgage debt with a fixed interest rate of 6.44% in connection with the acquisition of the Place Portfolio.

At December 31, 2006, we had outstanding indebtedness of \$493,333 (net of unamortized debt premium of \$2,308). The scheduled future maturities of all outstanding indebtedness at December 31, 2006 are as follows:

| <b>Year</b>  |                   |
|--|-------------------|
| 2007   | \$ 60,158         |
| 2008   | 26,481            |
| 2009   | 354,449           |
| 2010   | 888               |
| 2011   | 947               |
| Thereafter   | 48,102            |
| <b>Total</b>   | <b>\$ 491,025</b> |
| Debt premium   | 2,308             |
| Outstanding as of December 31, 2006, net of debt premium | <b>\$ 493,333</b> |

At December 31, 2006, the outstanding mortgage debt had a weighted average interest rate of 5.85% and carried an average term to maturity of 2.7 years. Our ratio of mortgage debt to total market capitalization was approximately 54.2% at December 31, 2006.

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Three mortgages totaling \$56,463 are scheduled to mature within five months of December 31, 2006. On March 1, 2007 two of the mortgages totaling \$29,963 were refinanced at a new rate of 5.55% compared to the existing rate of 6.63%. We expect to refinance the third mortgage in the near future.

In addition to mortgage debt, the Trust also had \$22,400 outstanding under the Amended Revolver and \$47,000 outstanding under the Term Loan. 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. The Amended Revolver and Term Loan require interest only payments through maturity. 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 (7.08% at December 31, 2006). 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% (8.08% at December 31, 2006).

### **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. As a result of these considerations we adjusted our existing annual dividend target of \$1.19 per share/unit to \$0.82 per share/unit effective with the second quarter 2006 dividend that was paid on November 7, 2006. The new dividend target is more in line with current FFO and operating cash flow levels and put us in a better position to take advantage of opportunities to pay down debt or invest in other student housing assets.

On January 9, 2007 we announced our fourth quarter distribution of \$0.205 per share of common stock for the quarter ending on December 31, 2006. The distribution is payable on February 6, 2007 to stockholders of record at the close of business on January 23, 2007.

### **Off-Balance Sheet Arrangements**

As discussed in note 7 to the consolidated financial statements we hold investments in unconsolidated entities. Three of these unconsolidated entities have third party mortgage indebtedness totaling \$89,000 at December 31, 2006. Additionally, 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.

### **Funds From Operations**

As defined by the National Association of Real Estate Investment Trusts ( NAREIT ), 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 available to all shareholders and unitholders 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. As such, we also exclude the impact of minority interest in our calculation. 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.

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.

We changed the presentation of FFO beginning with our Form 10-Q covering the three months ended March 31, 2006 to presenting FFO available to all shareholders and unitholders. Previously, including in our Form 10-K for the year ended December 31, 2005, we presented only FFO available to common shareholders. The impact of this change is the exclusion of the impact of minority interest expense on FFO in the amount of \$1,040.

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The following table presents a reconciliation of our FFO available to our shareholders and unitholders to our net income for the years ended December 31, 2006, 2005 and 2004.

|  | Year Ended December 31, |                           |          |
|--|-------------------------|---------------------------|----------|
|  | 2006                    | 2005<br>(In<br>thousands) | 2004     |
| Net income (loss)  | \$ (12,245)             | \$ (15,534)               | \$ 758   |
| Plus student housing property depreciation and amortization of lease intangibles     | 35,728                  | 29,168                    | 3,120    |
| Plus equity portion of real estate depreciation and amortization on equity investees | 54                      |                           |          |
| Plus minority interest benefit   | (355)                   | (1,040)                   |          |
| Funds from operations available to all share and unit holders                        | \$ 23,182               | \$ 12,594                 | \$ 3,878 |

**Inflation**

Our student housing leases typically do not have terms that extend beyond twelve 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.

**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 did not have a material impact on the Trust's consolidated financial condition or results of operations taken as a whole.

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) requires 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 Trust adopted Statement 123(R) effective January 1, 2006, and it did not have a material impact on the Trust's consolidated financial condition or results of operations taken as a whole. In March 2005, the SEC issued Staff Accounting Bulletin ( SAB 107 ) to provide public companies additional guidance in applying the provisions of Statement 123(R). Among other things, SAB 107 describes the SEC staff's expectations in determining the assumptions that underlie the fair value estimates and discusses the interaction of Statement 123(R) with certain existing SEC guidance. The guidance is also beneficial to users of financial statements in analyzing the information provided under statement 123(R). SAB 107 was applied upon the adoption of Statement 123(R).

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 makes 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 did not have a material impact on the Trust's consolidated financial condition or results of operations taken as a whole.

In June 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an Interpretation of FASB*



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*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 condition 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 adoption of SAB 108 did not have a material impact on the Trust's consolidated financial condition or results of operations taken as a whole.

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 condition and results of operations.

**Item 7A. 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 December 31, 2006 we had fixed rate debt of \$421,625. Holding other variables constant a 100 basis point increase in interest rates would cause a \$9,046 decline in the fair value for our fixed rate debt. Conversely, a 100 basis point decrease in interest rates would cause a \$9,415 increase in the fair value of our fixed rate debt. At December 31, 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 2.7 years.

At December 31, 2006, we had a \$47,000 variable rate term loan and \$22,400 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 year ended December 31, 2006, the term loan had an average interest rate of 8.07%. Holding other variables constant a 100 basis point increase in interest rates would cause a \$365 decrease annually in net income available to our common stockholders and a 100 basis point decrease in interest rates would cause a \$365 increase annually in net income available to our common stockholders.

Approximately 86% of the Trust's outstanding debt was subject to fixed rates at December 31, 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 8. *Financial Statements and Supplementary Data.***

The information required herein is included on pages F-1 to F-66 of this Annual Report on Form 10-K.

**Item 9. *Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.***

None.

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**Item 9A. Controls and Procedures.**

*Disclosure Controls and Procedures*

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company'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. The Company also has investments in unconsolidated entities which are not under its control. Consequently, the Company's disclosure controls and procedures with respect to these entities are necessarily more limited than those it maintains with respect to its consolidated subsidiaries.

Our management, with the participation of our principal executive officer and financial officers has evaluated the effectiveness of the design and operation of the Company'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 December 31, 2006, our Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures were effective to ensure that information required to be disclosed by the Company in the Company's Exchange Act filings is recorded, processed, summarized and reported within the time periods specified in the applicable SEC rules and forms.

*Changes in Internal Control Over Financial Reporting*

During the three months ended December 31, 2006, there were no significant changes in EDR's internal control over financial reporting that materially affected, or that are reasonably likely to materially affect, EDR's internal control over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) of the Exchange Act).

*Management's Report on Internal Control Over Financial Reporting*

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Under the supervision and with the participation of our management, including our Chairman, Chief Executive Officer, and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2006 based on the guidelines established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Our internal control over financial reporting includes policies and procedures that provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with U.S. generally accepted accounting principles.

Based on the results of our evaluation, our management concluded that our internal control over financial reporting was effective as of December 31, 2006. We reviewed the results of management's assessment with our Audit Committee.

Management's assessment of the effectiveness of our internal control over financial reporting as of December 31, 2006 has been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report which follows this Item 9A.

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Stockholders of  
Education Realty Trust, Inc.  
Memphis, Tennessee

We have audited management's assessment, included in the accompanying *Management's Report on Internal Control Over Financial Reporting*, that Education Realty Trust, Inc. and subsidiaries (the Trust) maintained effective internal control over financial reporting as of December 31, 2006, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Trust's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Trust's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that the Trust maintained effective internal control over financial reporting as of December 31, 2006, is fairly stated, in all material respects, based on the criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Also in our opinion, the Trust maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006 based on the criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements of the Trust as of and for the year ended December 31, 2006 and our report dated March 9, 2007 expressed an unqualified opinion on those consolidated financial statements.

/s/ Deloitte & Touche LLP  
Memphis, Tennessee  
March 9, 2007

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**Item 9B. Other Information.**

None.

**PART III**

**Item 10. Directors and Executive Officers of the Registrant.**

The information required by this Item will be presented in the Company's definitive proxy statement for the annual meeting of stockholders to be held on May 22, 2007, which will be filed with the Securities and Exchange Commission and is incorporated herein by reference.

**Item 11. Executive Compensation.**

The information required by this Item will be presented in the Company's definitive proxy statement for the annual meeting of stockholders to be held on May 22, 2007, which will be filed with the Securities and Exchange Commission and is incorporated herein by reference.

**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.**

The information required by this Item will be presented in the Company's definitive proxy statement for the annual meeting of stockholders to be held on May 22, 2007, which will be filed with the Securities and Exchange Commission and is incorporated herein by reference.

The information required by Item 201(d) or Regulation S-K disclosing the securities authorized for issuance under EDR's equity compensation plans can be found under Part II, Item 5 Market for Registrant's Common Equity, Related Stockholder Matters and Issuers Purchases of Equity Securities of this Annual Report on Form 10-K and is incorporated by reference herein.

**Item 13. Certain Relationships and Related Transactions.**

The information required by this Item will be presented in the Company's definitive proxy statement for the annual meeting of stockholders to be held on May 22, 2007, which will be filed with the Securities and Exchange Commission and is incorporated herein by reference.

**Item 14. Principal Accounting Fees and Services.**

The information required by this Item will be presented in the Company's definitive proxy statement for the annual meeting of stockholders to be held on May 22, 2007, which will be filed with the Securities and Exchange Commission and is incorporated herein by reference.

**PART IV**

**Item 15. Exhibits and Financial Statement Schedules.**

(a) List of Documents Filed.

1. *Financial Statements*

The list of the financial statements filed as part of this Annual Report on Form 10-K is set forth on page F-1 herein.

2. *Financial Statement Schedules*

All schedules required are included in the financial statements and notes thereto.

3. *Exhibits*

The list of exhibits filed as part of this Annual Report on Form 10-K is submitted in the Exhibit Index following the financial statements in response to Item 601 of Regulation S-K.

(b) Exhibits.

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The exhibits filed in response to Item 601 of Regulation S-K are listed on the Exhibit Index attached hereto.  
(c) None

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) 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.

By: /s/ Paul O. Bower

Paul O. Bower  
*President, Chief Executive Officer  
and Chairman of the Board of Directors*

Dated: March 12, 2007

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| <b>Signature</b>                                     | <b>Title</b>   | <b>Date</b>    |
|--|--|----------------|
| /s/ Paul O. Bower<br>Paul O. Bower                   | President, Chief Executive Officer and<br>Chairman of the Board of Directors<br>(Principal Executive Officer)  | March 12, 2007 |
| /s/ Randall H. Brown<br>Randall H. Brown             | Executive Vice President, Chief<br>Financial Officer, Treasurer and<br>Secretary (Principal Financial Officer) | March 12, 2007 |
| /s/ J. Drew Koester<br>J. Drew Koester               | Vice President and Chief Accounting<br>Officer (Principal Accounting Officer)                                  | March 12, 2007 |
| /s/ Monte J. Barrow<br>Monte J. Barrow               | Director   | March 12, 2007 |
| /s/ William J. Cahill, III<br>William J. Cahill, III | Director   | March 12, 2007 |
| /s/ Randall L. Churchey<br>Randall L. Churchey       | Director   | March 12, 2007 |
| /s/ John L. Ford<br>John L. Ford                     | Director   | March 12, 2007 |

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Stockholders of  
Education Realty Trust, Inc.  
Memphis, Tennessee

We have audited the accompanying consolidated balance sheets of Education Realty Trust, Inc. and subsidiaries (the Trust) as of December 31, 2006 and 2005, and the related consolidated statements of operations, stockholders equity and cash flows for the Trust for the years ended December 31, 2006 and 2005 and the period July 12, 2004 (date of formation) through December 31, 2004 and the combined statements of operations, owners equity, and cash flows for Education Realty Trust Predecessor (the EDR Predecessor, as defined in note 1) for the period January 1, 2005 through January 30, 2005 and the year ended December 31, 2004. These consolidated and combined financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated and combined financial statements present fairly, in all material respects, the consolidated financial position of the Trust at December 31, 2006 and 2005, and the consolidated results of operations and cash flows of the Trust for the years ended December 31, 2006 and 2005 and the period July 12, 2004 (date of formation) through December 31, 2004 and the combined results of operations and cash flows of the EDR Predecessor for the period January 1, 2005 through January 30, 2005 and the year ended December 31, 2004 in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Trust's internal control over financial reporting as of December 31, 2006, based on the criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 9, 2007 expressed an unqualified opinion on management's assessment of the effectiveness of the Trust's internal control over financial reporting and an unqualified opinion on the effectiveness of the Trust's internal control over financial reporting.

/s/ Deloitte & Touche LLP  
Memphis, Tennessee  
March 9, 2007

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**EDUCATION REALTY TRUST, INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
**December 31, 2006 and 2005**

|  | <b>2006</b>  | <b>2005</b>       |
|--|--|-------------------|
|  | <b>(Amounts in thousands, except share and per share data)</b> |                   |
| <b>ASSETS</b>  |  |                   |
| Student housing properties, net  | \$ 804,759   | \$ 620,305        |
| Corporate office furniture, net  | 752  | 991               |
| Cash and cash equivalents  | 6,427  | 61,662            |
| Restricted cash  | 9,154  | 6,738             |
| Student contracts receivable, net  | 227  | 470               |
| Receivable from affiliate  | 369  |                   |
| Management fee receivable from third parties   | 669  | 552               |
| Goodwill and other intangibles, net  | 3,649  | 3,546             |
| Other assets   | 9,452  | 9,785             |
| <b>Total assets</b>  | <b>\$ 835,458</b>  | <b>\$ 704,049</b> |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>   |  |                   |
| <b>Liabilities:</b>  |  |                   |
| Mortgage loans, net of unamortized premium/discount  | \$ 423,933   | \$ 328,335        |
| Other long term debt   | 47,000   |                   |
| Revolving line of credit   | 22,400   |                   |
| Accounts payable   | 696  | 2,075             |
| Accrued expenses   | 10,068   | 7,295             |
| Accounts payable affiliate   |  | 225               |
| Deferred revenue   | 9,073  | 7,660             |
| <b>Total liabilities</b>   | <b>513,170</b>   | <b>345,590</b>    |
| Minority interest  | 19,289   | 27,926            |
| Commitments and contingencies  |  |                   |
| <b>Stockholders equity:</b>  |  |                   |
| Common stock, \$.01 par value, 200,000,000 shares authorized, 26,810,552 and 26,263,889 shares issued and outstanding as of December 31, 2006 and 2005, respectively | 268  | 263               |
| Preferred shares, \$.01 par value, 50,000,000 shares authorized, no shares issued and outstanding  |  |                   |
| Unearned deferred compensation   |  | (2,470)           |
| Additional paid in capital   | 330,374  | 354,134           |
| Loan to unitholder   |  | (5,996)           |
| Warrants   | 375  | 375               |

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|  |            |            |
|--|------------|------------|
| Accumulated deficit                        | (28,018)   | (15,773)   |
| Total stockholders' equity                 | 302,999    | 330,533    |
| Total liabilities and stockholders' equity | \$ 835,458 | \$ 704,049 |

See accompanying notes to the consolidated and combined financial statements.

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

|   | Education Realty Trust, Inc.<br>Consolidated |                                       |   | EDR Predecessor<br>Combined                       |  |
|---|--|---------------------------------------|---|---|--|
|   | Year Ended<br>December<br>31,<br>2006        | Year Ended<br>December<br>31,<br>2005 | July 12<br>through<br>December<br>31,<br>2004 | January<br>1<br>through<br>January<br>30,<br>2005 | Year<br>Ended<br>December<br>31,<br>2004 |
| (Amounts in thousands, except share and per share data) |  |                                       |   |   |  |
| <b>Revenues:</b>  |  |                                       |   |   |  |
| Student housing leasing revenue                         | \$ 87,438                                    | \$ 74,374                             | \$  | \$ 1,503  | \$ 17,896                                |
| Student housing food service revenue                    | 3,634  | 3,222                                 |   | 269   | 3,137                                    |
| Other leasing revenue                                   | 14,012                                       |                                       |   |   |  |
| Third-party development services                        | 3,773  | 1,759                                 |   |   | 392                                      |
| Third-party management services                         | 2,796  | 1,865                                 |   | 103   | 1,326                                    |
| Operating expense reimbursements                        | 7,638  | 6,023                                 |   | 671   | 5,223                                    |
| Total revenues  | 119,291                                      | 87,243                                |   | 2,546   | 27,974                                   |
| <b>Operating expenses:</b>                              |  |                                       |   |   |  |
| Student housing leasing operations                      | 42,669                                       | 37,270                                |   | 524   | 7,645                                    |
| Student housing food service operations                 | 3,318  | 3,020                                 |   | 255   | 2,899                                    |
| General and administrative                              | 12,331                                       | 12,182                                | 201   | 367   | 3,545                                    |
| Depreciation and amortization                           | 36,083                                       | 28,908                                |   | 260   | 3,120                                    |
| Reimbursable operating expenses                         | 7,638  | 6,023                                 |   | 671   | 5,223                                    |
| Total operating expenses                                | 102,039                                      | 87,403                                | 201   | 2,077   | 22,432                                   |
| Operating income (loss)                                 | 17,252                                       | (160)                                 | (201)   | 469   | 5,542                                    |
| <b>Nonoperating expenses:</b>                           |  |                                       |   |   |  |
| Interest expense  | 29,353                                       | 16,186                                | 21  | 479   | 5,623                                    |
| Exit fees on early repayment of mortgages               |  | 1,084                                 |   |   |  |
| Amortization of deferred financing costs                | 1,114  | 820                                   |   |   | 163                                      |
| Interest income   | (534)  | (1,303)                               |   |   |  |
| Total nonoperating expenses                             | 29,933                                       | 16,787                                | 21  | 479   | 5,786                                    |

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|   |             |             |          |       |        |
|---|-------------|-------------|----------|-------|--------|
| Loss before equity in earnings of unconsolidated entities, income taxes and minority interest | (12,681)    | (16,947)    | (222)    | (10)  | (244)  |
| Equity in earnings of unconsolidated entities   | 740         | 853         |          | 27    | 1,002  |
| Income (loss) before income taxes and minority interest                                       | (11,941)    | (16,094)    | (222)    | 17    | 758    |
| Taxes   | 659         | 497         |          |       |        |
| Net income (loss) before minority interest  | (12,600)    | (16,591)    | (222)    | 17    | 758    |
| Minority interest   | (355)       | (1,040)     |          |       |        |
| Net income (loss)   | \$ (12,245) | \$ (15,551) | \$ (222) | \$ 17 | \$ 758 |

**Earnings per share information:**

|                                  |           |           |            |
|----------------------------------|-----------|-----------|------------|
| Loss per share basic and diluted | \$ (0.46) | \$ (0.67) | \$ (2,220) |
|----------------------------------|-----------|-----------|------------|

|  |            |            |     |
|--|------------|------------|-----|
| Weighted average common shares outstanding basic and diluted | 26,387,547 | 23,063,110 | 100 |
|--|------------|------------|-----|

|                                |         |         |
|--------------------------------|---------|---------|
| Distributions per common share | \$ 1.10 | \$ 0.79 |
|--------------------------------|---------|---------|

See accompanying notes to the consolidated and combined financial statements.

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**EDUCATION REALTY TRUST, INC. AND  
SUBSIDIARIES AND EDR PREDECESSOR  
CONSOLIDATED AND COMBINED STATEMENTS OF CHANGES IN  
STOCKHOLDERS AND OWNERS EQUITY**

| Common Stock   | Additional | Unearned     | Loan    | EDR         |          |
|--|------------|--------------|---------|-------------|----------|
| Shares   | Paid-In    | Deferred     | to      | Predecessor | Total    |
| Amount   | Capital    | Compensation | Unit    | Equity      |          |
|  | Warrants   | Warrants     | Holder  | deficit     |          |
| (Amounts in thousands, except share and per share data)                  |            |              |         |             |          |
| <b>EDR</b>   |            |              |         |             |          |
| <b>Predecessor:</b>  |            |              |         |             |          |
| Balance,<br>December 31,<br>2003   |            |              |         | 2,495       | 2,495    |
| Equity<br>contributions  |            |              |         | 40          | 40       |
| Distributions  |            |              |         | (1,504)     | (1,504)  |
| Net income   |            |              |         | 758         | 758      |
| <br>Balance,<br>December 31,<br>2004                                     |            |              |         | 1,789       | 1,789    |
| Net income   |            |              |         | 17          | 17       |
| <br>Balance,<br>January 30,<br>2005                                      |            |              |         | \$ 1,806    | \$ 1,806 |
| <br><b>The Trust:</b>  |            |              |         |             |          |
| Contributed<br>capital, July 12,<br>2004                                 | 100        | \$ 1         |         |             | \$ 1     |
| Net loss   |            |              |         | \$ (222)    | (222)    |
| <br>Balance,<br>December 31,<br>2004                                     | 100        | 1            |         | (222)       | (221)    |
| Issuance and<br>registration of<br>common shares                         |            |              |         |             |          |
| The Offering   | 21,850,000 | \$ 219       | 320,200 |             | 320,419  |
| Redemption of<br>Promoter s<br>common shares<br>simultaneous<br>with The | (100)      |              | (1)     |             | (1)      |

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|   |            |     |          |            |            |          |          |          |
|---|------------|-----|----------|------------|------------|----------|----------|----------|
| Offering  |            |     |          |            |            |          |          |          |
| Issuance of warrants  |            |     |          |            | \$ 375     |          |          | 375      |
| Loan to unit holder   |            |     |          |            | \$ (5,996) |          |          | (5,996)  |
| Excess of purchase price of EDR   |            |     |          |            |            |          |          |          |
| Predecessor over fair value related to Promoter carried over at historical cost |            |     | (17,382) |            |            |          |          | (17,382) |
| Restricted shares issued to officers and directors                              |            |     | 3,126    | \$ (3,126) |            |          |          |          |
| Amortization of restricted stock  | 38,889     |     |          |            | 656        |          |          | 656      |
| Issuance of common shares private placement                                     | 4,375,000  | 44  | 66,911   |            |            |          |          | 66,955   |
| Cash dividends  |            |     | (18,721) |            |            |          |          | (18,721) |
| Net loss  |            |     |          |            |            | (15,551) |          | (15,551) |
| Balance, December 31, 2005  | 26,263,889 | 263 | 354,134  | (2,470)    | 375        | (5,996)  | (15,773) | 330,533  |
| Reclassification of unearned compensation upon adoption of SFAS 123R            |            |     | (2,470)  | 2,470      |            |          |          |          |
| Restricted shares issued to officers and directors                              | 6,000      |     | 88       |            |            |          |          | 88       |
| Amortization of restricted stock  | 36,000     |     | 604      |            |            |          |          | 604      |
| Operating unit conversion to common stock                                       | 99,056     | 1   | 1,389    |            |            |          |          | 1,390    |
| Redemption of minority interest to satisfy loan to unitholder                   |            |     |          |            |            | 5,996    |          | 5,996    |
| Net proceeds from issuance of common shares                                     | 405,607    | 4   | 5,743    |            |            |          |          | 5,747    |



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|                                   |            |        |            |        |             |            |
|-----------------------------------|------------|--------|------------|--------|-------------|------------|
| -dividend<br>reinvestment<br>plan |            |        |            |        |             |            |
| Cash dividends                    |            |        | (29,114)   |        |             | (29,114)   |
| Net loss                          |            |        |            |        | (12,245)    | (12,245)   |
| Balance,<br>December 31,<br>2006  | 26,810,552 | \$ 268 | \$ 330,374 | \$ 375 | \$ (28,018) | \$ 302,999 |

See accompanying notes to consolidated and combined financial statements.

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

|  | Education Realty Trust, Inc.<br>Consolidated |                                       |   | EDR Predecessor<br>Combined                       |  |
|--|--|---------------------------------------|---|---|--|
|  | Year<br>Ended<br>December<br>31,<br>2006     | Year Ended<br>December<br>31,<br>2005 | July 12<br>through<br>December<br>31,<br>2004 | January<br>1<br>through<br>January<br>30,<br>2005 | Year<br>Ended<br>December<br>31,<br>2004 |
| <b>Operating activities:</b>   |  |                                       |   |   |  |
| Net income (loss)  | \$ (12,245)                                  | \$ (15,551)                           | \$ (222)                                      | \$ 17   | \$ 758                                   |
| Adjustments to reconcile net income<br>(loss) to net cash provided by (used<br>in) operating activities: |  |                                       |   |   |  |
| Depreciation and amortization  | 36,083                                       | 28,908                                |   | 246   | 3,120                                    |
| Deferred tax benefit   | (48)   | (209)                                 |   |   |  |
| Loss on disposal of assets   | 11   | 18                                    |   |   |  |
| Amortization of deferred financing<br>costs  | 1,114  | 820                                   |   | 14  | 163                                      |
| Amortization of unamortized debt<br>premiums/discounts   | (559)  | (364)                                 |   |   |  |
| Distributions from unconsolidated<br>entities  | 787  | 879                                   |   |   | 808                                      |
| Noncash compensation expense<br>related to PIUs and restricted stock                                     | 796  | 4,783                                 |   |   |  |
| Equity in earnings of unconsolidated<br>entities   | (740)  | (853)                                 |   | (27)  | (1,002)                                  |
| Minority interest  | (355)  | (1,040)                               |   |   |  |
| Change in operating assets and<br>liabilities (net of acquisitions):                                     |  |                                       |   |   |  |
| Student contracts receivable   | 259  | (374)                                 |   | (5)   | 76                                       |
| Management fees receivable   | (117)  | (284)                                 |   | 63  | (52)                                     |
| Other assets   | (1,176)                                      | 868                                   |   | (818)   | 330                                      |
| Accounts payable and accrued<br>expenses   | 612  | 3,069                                 |   | 712   | (65)                                     |
| Accounts payable affiliate   | (594)  | (3,729)                               |   | 276   | (471)                                    |
| Deferred revenue   | 1,359  | 1,432                                 |   | (320)   | (597)                                    |
| Net cash provided by (used in)<br>operating activities   | 25,187                                       | 18,373                                | (222)   | 158   | 3,068                                    |
| <b>Investing activities</b>  |  |                                       |   |   |  |
| Property acquisitions, net of cash<br>acquired   | (112,717)                                    | (187,283)<br>(4,718)                  |   | (25)  |  |

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|  |           |           |         |         |
|--|-----------|-----------|---------|---------|
| Deferred acquisition costs and<br>earnest money deposits |           |           |         |         |
| Purchase of corporate furniture and<br>fixtures          | (86)      | (1,093)   |         |         |
| Restricted cash  | (40)      | (1,725)   | (2,348) | 336     |
| Insurance proceeds on property loss                      | 184       | 175       |         |         |
| Investment in student housing<br>properties              | (4,858)   | (5,513)   |         | (517)   |
| Investments in joint ventures                            | (3,313)   |           |         |         |
| Net cash used in investing activities                    | (120,830) | (200,157) | (2,373) | (181)   |
| <b>Financing activities:</b>                             |           |           |         |         |
| Payment of mortgage notes                                | (2,503)   | (115,782) | (98)    | (1,093) |
| Borrowings of long-term debt                             | 50,000    |           | 497     |         |
| Repayments of long-term debt                             | (3,000)   |           |         |         |
| Debt issuance costs                                      | (1,352)   | (3,176)   |         | (3)     |
| Borrowing (repayment) of line of<br>credit, net          | 22,400    | (497)     |         |         |
| Loan to unit holder                                      |           | (5,996)   |         |         |
| Proceeds from Offering and private<br>placement          | 5,994     | 419,600   |         |         |
| Payment of offering costs                                | (248)     | (30,008)  | (3,790) |         |
| Distributions paid                                       | (30,875)  | (20,213)  |         | (1,504) |
| Borrowing/(repayment) of notes<br>payable affiliate      |           | (483)     | 3,515   | 80      |
| Redemption of minority interest                          | (8)       |           |         |         |
| Equity contributions                                     |           |           |         | 40      |
| Net cash provided by (used in)<br>financing activities   | 40,408    | 243,445   | 222     | (98)    |
|  |           |           | (98)    | (2,480) |

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|   | <b>Education Realty Trust, Inc.<br/>Consolidated</b> |   |  | <b>EDR Predecessor<br/>Combined</b>                           |   |
|---|--|---|--|---|---|
|   | <b>Year<br/>Ended<br/>December<br/>31,<br/>2006</b>  | <b>Year Ended<br/>December<br/>31,<br/>2005</b> | <b>July 12<br/>through<br/>December<br/>31,<br/>2004</b> | <b>January<br/>1<br/>through<br/>January<br/>30,<br/>2005</b> | <b>Year<br/>Ended<br/>December<br/>31,<br/>2004</b> |
| Net increase (decrease) in cash and cash equivalents          | (55,235)   | 61,661  |  | (2,313)   | 407   |
| Cash and cash equivalents, beginning of period                | 61,662   | 1   | 1  | 2,883   | 2,476   |
| Cash and cash equivalents, end of period                      | \$ 6,427   | \$ 61,662                                       | \$ 1   | \$ 570  | \$ 2,883  |
| <b>Supplemental disclosure of cash flow information:</b>      |  |   |  |   |   |
| Interest paid   | \$ 29,180  | \$ 9,778  | \$ 21  | \$ 471  | \$ 5,629  |
| Income taxes paid   | \$ 819   | \$ 357  |  |   |   |
| <b>Supplemental disclosure of noncash activities:</b>         |  |   |  |   |   |
| Place acquisition costs paid in 2005                          | \$ 4,718   | \$  |  |   |   |
| Redemption of minority interest to satisfy loan to unitholder | 6,116  |   |  |   |   |
| Prepaid offering costs charged against equity                 |  | 2,218   |  |   |   |
| Units issued in the Formation Transactions                    |  | 26,340  |  |   |   |
| Warrants issued in the Formation Transactions                 |  | 375   |  |   |   |
| Debt assumed in property acquisitions net of premium          | 98,660   | 444,964   |  |   |   |

See accompanying notes to the consolidated and combined financial statements.

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**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.

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**2. The Offering, the formation transactions and the private placement**

The Trust completed 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. Concurrently, the Operating Partnership used approximately \$36,500 of offering proceeds and issued units approximating \$18,300 in estimated value to directly or indirectly acquire the EDR Predecessor.

Simultaneous with the Offering, the Operating Partnership together with its taxable REIT subsidiary engaged in the following formation transactions (the Formation Transactions):

The Promoter and certain members of management contributed their interests in AOES in exchange for \$12,400 of units in the Operating Partnership. AOES converted to a corporation and elected to be treated as the taxable REIT subsidiary. AOES owns 100% of AODC.

The Operating Partnership acquired all of the interests in EPT from the previous owners for \$26,661 in cash, \$1,342 in units in the Operating Partnership and the assumption of debt totaling \$50,134. As a result EPT became a wholly owned single member LLC subsidiary of the Operating Partnership.

The owners of The Gables contributed their interests in the student housing property to a newly formed Delaware limited partnership referred to as EDR BG, LP in exchange for all the limited partnership interests of EDR BG LP. The Operating Partnership acquired all of the ownership interests in EDR BG LP for \$1,043 in cash, \$58 in units in the Operating Partnership and the assumption of debt totaling \$4,552.

C Station LLC merged into a newly formed Delaware LLC, EDR C Station LLC, which is a wholly owned subsidiary of the Operating Partnership. The interests were contributed in exchange for the issuance of \$229 in units in the Operating Partnership and the assumption of debt and notes payable to the Promoter totaling \$2,477.

The University Towers Partnership acquired a 100% interest in University Towers and in turn was acquired for \$8,813 in cash, \$4,316 in units and the assumption of debt totaling \$24,371.

The Operating Partnership also acquired 14 properties referred to as the JPI portfolio simultaneous with the Offering. The purchase price of \$401,975 was paid in cash of \$82,105 the issuance of \$7,995 of units in the Operating Partnership, and the assumption of first mortgage debt of \$311,500, of which \$93,360 was repaid with the use of the net proceeds of the offering. Additionally the Operating Partnership issued warrants to JPI to purchase 250,000 shares of common stock at an exercise price per share of 103% of the Offering price. These warrants have a value approximating \$375. The warrants are exercisable beginning January 31, 2006 and expire on February 28, 2007. In connection with the acquisition, 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 Trust redeemed 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*, which resulted in additional goodwill of \$388. 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.

In connection with the Formation Transactions, the Trust paid off certain mortgage indebtedness resulting in a prepayment penalty of approximately \$1,100, which is reflected in nonoperating expenses in the accompanying consolidated statement of operations for the year ended December 31, 2005.

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. In connection with the Private Placement, the Trust also entered into a registration rights agreement with the investors on September 22, 2005 (the Registration Rights Agreement ). Pursuant to the Registration Rights Agreement, the Trust agreed to file a registration statement covering the shares and to cause the registration statement to be declared effective within 180 days after the September 30, 2005 closing date. These shares were registered with the Securities and Exchange Commission on January 25, 2006.

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**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 represent the assets and liabilities and 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. The Promoter has other operations, which were not contributed to the Operating Partnership or the Trust and, therefore, the combined financial statements of EDR Predecessor are not intended to represent the financial position and results of operations of all of the Promoter's investments.

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

***Use of estimates***

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates and assumptions are used by management in determining the useful lives of student housing assets, the valuation of goodwill, the initial valuations and underlying allocations of purchase price in connection with student property acquisitions, and in the recording of the allowance for doubtful accounts. 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 and short-term investments are 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



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equipment are depreciated over 3 to 7 years. Depreciation is computed using the straight-line method for financial reporting purposes over the estimated useful life.

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 December 31, 2006 and 2005, management determined that no indicators of impairment existed.

***Deferred financing costs***

Deferred financing costs represent costs incurred in connection with acquiring debt facilities. The costs incurred during the years ended December 31, 2006 and 2005 were \$1,352 and \$3,176, respectively, and are being amortized over the terms of the related debt using a method that approximates the effective interest method.

Amortization expense approximated \$1,114 and \$820 for the Trust for the years ended December 31, 2006 and 2005, respectively and \$163 for the EDR Predecessor for the year ended December 31, 2004. Accumulated amortization for the Trust at December 31, 2006 and 2005, respectively approximated \$1,934 and \$820 and accumulated amortization for the EDR Predecessor approximated \$709 at December 31, 2004. Deferred financing costs, net of amortization, are included in other assets on the accompanying consolidated balance sheets.

***Offering costs***

Specific incremental costs directly attributable to the Offering, the Private Placement and the dividend reinvestment plan 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 expense using the effective interest method. As of December 31, 2006 and 2005, respectively, the Trust had net unamortized debt premiums of \$2,308 and \$2,867. These amounts are included in mortgage loans in the accompanying consolidated balance sheets.

***Income taxes***

The Trust qualifies 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. The Trust follows SFAS No. 109, *Accounting for Income Taxes*, which requires the use of the asset and liability method. Deferred tax

assets and liabilities are recognized based on the difference between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates in effect in the years in which those temporary differences are expected to reverse.

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No provision for income taxes has been recorded in the EDR Predecessor combined financial statements, as the owners are required to report their share of the EDR Predecessor's earnings in their respective income tax returns.

***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 December 31, 2006 and 2005, 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:

|   | <b>2006</b> | <b>2005</b> |
|---|-------------|-------------|
| Operating Partnership units                   | 913,738     | 1,376,471   |
| University Towers Operating Partnership units | 269,757     | 269,757     |
| Restricted Stock (unvested shares)            | 111,111     | 147,111     |
| Profits Interest Units                        | 265,000     | 245,000     |
| Total potentially dilutive securities         | 1,559,606   | 2,038,339   |

A reconciliation of the numerators and denominators for the basic and diluted earnings per share computations is not required.

***Repairs, maintenance, and major improvements***

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

***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 asset might be impaired. An impairment loss is recognized to the extent that the carrying amount exceeds the asset's fair value.

***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 Trust's and EDR Predecessor's 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. As of 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 AOES

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



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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 )

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  
All of the investments in unconsolidated joint ventures and limited liability companies as of December 31, 2005 were held by the Trust at December 31, 2006.

During the year ended December 31, 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 EROP

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

WEDR Riverside Investors V, LLC, a Delaware limited liability company, 10% owned by EROP

APF EDR, LP, a Delaware limited partnership, 10% owned by EROP

APF EDR Food Services, LP, a Delaware limited partnership, 10% owned by EROP

WEDR Stinson Investors V, LLC, a Delaware limited liability company, 10% owned by EROP

***Revenue recognition***

The Trust and EDR Predecessor recognize revenue related to leasing activities at the student housing properties owned by the Trust and EDR Predecessor, 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 and EDR Predecessor.

*Student housing leasing revenue* Student housing leasing revenue is comprised of all activities 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 and EDR Predecessor require 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 and EDR Predecessor have no contingent rental contracts except as noted below related to other leasing revenue. The future minimum rental income to be received based on leases held as of December 31, 2006 is approximately \$48,527. 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 and EDR Predecessor provide 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 and EDR Predecessor maintain 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 ) on January 1, 2006 as discussed in Note 5. 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.

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*Third-party development consulting revenue* The Trust and EDR Predecessor provide development-consulting services in an agency capacity with third parties whereby the fee is determined based upon the total construction costs. A portion of the fee is typically received upfront and varies from 3-5% of the total estimated costs. 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 and EDR Predecessor enter 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 and EDR Predecessor pay certain payroll and related costs related to the operations of third party student housing properties that are managed by the Trust and EDR Predecessor. 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*.

Due to the nature of the Trust and EDR Predecessor's business, accounts receivable result primarily from monthly billings of student rents. Payments are normally received within 30 days. Balances are considered past due when payment is not received on the contractual due date. Allowances for uncollectible accounts are established by management when it is determined that collection is doubtful. Such allowances are reviewed periodically based upon experience. The following table reconciles the allowance for doubtful accounts for the years ended December 31, 2006 and 2005, for the Trust, and the year ended December 31, 2004 for the EDR Predecessor. The Trust had no allowance for doubtful accounts for the year ended December 31, 2004.

|                                      | <b>Education Realty<br/>Trust, Inc.</b> |             | <b>EDR<br/>Predecessor</b> |
|--------------------------------------|---|-------------|----------------------------|
|                                      | <b>2006</b>                             | <b>2005</b> | <b>2004</b>                |
| Balance, beginning of period         | \$ 410                                  | \$          | \$ 114                     |
| Provision for uncollectible accounts | 775                                     | 2,306       | 152                        |
| Deductions                           | (1,142)                                 | (1,896)     | (169)                      |
| Balance, end of period               | \$ 43                                   | \$ 410      | \$ 97                      |

***Costs related to third party development consulting services***

Costs associated with the pursuit of development consulting contracts are expensed as incurred, until such time that management has been notified of a contract award. At such time the reimbursable costs are recorded as receivables and are reflected as other assets in the accompanying balance sheets.

***Advertising expense***

Advertising expenses are charged to income during the period incurred. The Trust and EDR Predecessor do not use direct response advertising. Advertising expense was \$1,871 and \$1,990 for the Trust for the years ended December 31, 2006 and 2005, respectively, and \$587 for the EDR Predecessor for the year ended December 31, 2004.

***Minority interests***

Minority interests in the Operating Partnership represent limited partnership interests in the form of operating partnership units and profits interest units. Income is allocated to minority interests based on weighted average percentage ownership each fiscal quarter. In the event the Operating Partnership was terminated on December 31, 2006 the amount of consideration paid to the minority interests holders would be in accordance with their positive capital account balances, determined after taking into account all capital account adjustments for all prior periods and the Operating Partnerships taxable year during which the termination occurs.

***Segment information***

The Trust and EDR Predecessor apply SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information*,

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which requires disclosure of certain operating and financial data with respect to separate business activities within an enterprise. The Trust and EDR Predecessor have identified three reportable business segments: student housing leasing, student housing development consulting services, and student housing management services.

***Stock-based compensation***

The Trust adopted the Education Realty Trust, Inc. 2004 Incentive Plan (the Plan ) effective upon the closing of the Offering. The Plan is described more fully in Note 8. The Trust adopted SFAS No. 123 (R), *Share-Based Payment* on January 1, 2006, which 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.

***Fair value of financial instruments***

The Trust and EDR Predecessor follow SFAS No. 107, *Disclosure about the Fair Value of Financial Instruments*, which requires the disclosure of the fair value of financial instruments for which it is practicable to estimate. The Trust and EDR Predecessor do not hold or issue financial instruments for trading purposes. The Trust and EDR Predecessor consider the carrying amounts or cash and cash equivalents, restricted cash and short-term investments, student contracts receivable, accounts payable and accrued expenses to approximate fair value due to the short maturity of these instruments. The Trust and EDR Predecessor have estimated the fair value of the mortgage notes payable utilizing present value techniques. At December 31, 2006, the carrying amount and estimated fair value of the mortgage notes payable was \$423,933 and \$404,240, respectively. At December 31, 2005, the carrying amount and estimated fair value of the mortgage notes payable was \$328,335 and \$318,423, respectively. The revolving credit facility and term loan bear interest at variable rates and therefore cost approximates market value at December 31, 2006.

***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 did not have a material impact on the Trust's consolidated financial condition or results of operations taken as a whole.

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) requires compensation costs related to share-based payment transactions to be recognized in the financial statements. With limited exceptions, the amount of compensation cost is measured based on the grant-date fair value of the equity instruments issued. Compensation cost is 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 Trust adopted Statement 123(R) effective January 1, 2006, and it did not have a material impact on the Trust's consolidated financial condition or results of operations taken as a whole. In March 2005, the SEC issued Staff Accounting Bulletin No. 107 ( SAB 107 ) to provide public companies additional guidance in applying the provisions of Statement 123(R). Among other things, SAB 107 describes the SEC staff's expectations in determining the assumptions that underlie the fair value estimates and discusses the interaction of Statement 123(R) with certain existing SEC guidance. The guidance is also beneficial to users of financial statements in analyzing the information provided under statement 123(R). SAB 107 was applied

upon the adoption of Statement 123(R).

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 makes 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

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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 did not have a material impact on the Trust's consolidated financial condition or results of operations taken as a whole.

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 adoption of SAB 108 did not have a material impact on the Trust's consolidated financial condition or results of operations taken as a whole.

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 condition 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 condition and results of operations.

**4. Income taxes**

Upon formation, the TRS became subject to federal and state income taxation and accordingly established deferred tax assets and liabilities. The EDR Predecessor was not subject to income taxes. The net deferred tax asset recorded upon the formation was approximately \$341.

Deferred income taxes result from temporary differences between the carrying amounts of assets and liabilities of the TRS for financial reporting purposes and the amounts used for income tax purposes. Significant components of the deferred tax assets and liabilities at December 31, 2006 and 2005, respectively, are as follows:

|   | <b>2006</b> | <b>2005</b> |
|---|-------------|-------------|
| <b>Deferred tax assets:</b>                     |             |             |
| Deferred revenue                                | \$ 49       | \$ 458      |
| Depreciation and amortization                   | 335         | 39          |
| Accrued expenses                                | 132         | 109         |
| Straight line rent                              | 30          | 3           |
| Total deferred tax assets                       | 546         | 609         |
| <b>Deferred tax liability:</b>                  |             |             |
| Amortization of management contracts intangible | (44)        | (59)        |

|                                |        |        |
|--------------------------------|--------|--------|
| <b>Net deferred tax assets</b> | \$ 502 | \$ 550 |
|--------------------------------|--------|--------|

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Significant components of the income tax provision (benefit) for the years ended December 31, 2006 and 2005, respectively, are as follows:

|                  | <b>2006</b> | <b>2005</b> |
|------------------|-------------|-------------|
| <b>Deferred:</b> |             |             |
| Federal          | \$ 40       | \$ (182)    |
| State            | 8           | (27)        |
| Deferred expense | 48          | (209)       |
| <b>Current:</b>  |             |             |
| Federal          | 498         | 525         |
| State            | 113         | 181         |
| Current expense  | 611         | 706         |
| Total provision  | \$ 659      | \$ 497      |

TRS earnings subject to tax consisted of \$1,606 and \$1,121 for the years ended December 31, 2006 and 2005, respectively. The reconciliation of income tax attributable to income before minority interest computed at the U.S. statutory rate to income tax provision is as follows:

|  | <b>2006</b> | <b>2005</b> |
|--|-------------|-------------|
| Tax provision at U.S. statutory rates on TRS income subject to tax | \$ 546      | \$ 381      |
| State income tax, net of federal benefit                           | 108         | 114         |
| Other  | 5           | 2           |
| Tax provision  | \$ 659      | \$ 497      |

**5. Student housing acquisitions**

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 \$98,660. A summary follows of the fair values of the assets acquired and the liabilities assumed as of the date of the acquisition:

|                                    | Allocation<br>Place<br>Portfolio |
|------------------------------------|----------------------------------|
| Current assets and restricted cash | \$ 2,376                         |
| Student housing properties         | 202,250                          |
| Other                              | 570                              |
| Total assets acquired              | 205,196                          |
| Current liabilities                | (855)                            |

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|   |           |
|---|-----------|
| Mortgage debt assumed net of premium/discount | (98,660)  |
| Acquisition costs                             | (7,446)   |
| Purchase price                                | \$ 98,235 |

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. 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                               |

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The purchase price allocation related to the Statesboro acquisition is 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 2007 and as a result this preliminary purchase price allocation is subject to change.

As discussed in Note 2, in connection with the Offering and Formation Transactions, the Operating Partnership acquired the entities comprising the EDR Predecessor as well as the 14 properties that comprised the JPI portfolio on January 31, 2005. Prior to the acquisition of the EDR Predecessor, the Promoter, directly and indirectly, held ownership interests in the predecessor entities. To the extent the Promoter exchanged his ownership interests; the acquisition was accounted for at historical cost. To the extent other ownership interests were exchanged, the acquisition has been recorded at the estimated fair value of the consideration exchanged. The following is a summary of the estimated fair values of the assets acquired and liabilities assumed in connection with the Formation Transactions as of the date of acquisition:

|   | <b>EDR<br/>Predecessor</b> | <b>JPI<br/>Portfolio</b> |
|---|----------------------------|--------------------------|
| Current assets and restricted cash            | \$ 6,175                   | \$ 3,093                 |
| Student housing properties                    | 117,587                    | 403,380                  |
| Goodwill and other intangibles                | 4,225                      | 3,562                    |
| Carryover basis at historical cost            | 17,382                     |                          |
| Other   | 352                        | 719                      |
| <b>Total assets acquired</b>                  | <b>145,721</b>             | <b>410,754</b>           |
| Current liabilities                           | (6,625)                    | (4,650)                  |
| Mortgage debt assumed net of premium/discount | (83,099)                   | (310,448)                |
| Acquisition costs                             | (1,272)                    | (7,540)                  |
| <b>Purchase price</b>                         | <b>\$ 54,725</b>           | <b>\$ 88,116</b>         |

Subsequent to the Offering, the Operating Partnership acquired student housing properties during 2005 near the University of Mississippi (February 2005), the University of South Carolina (March 2005), Middle Tennessee State University (April 2005), the University of Florida (June 2005), and Auburn University (July 2005). The aggregate purchase price approximated \$119,800, including the assumption of mortgage debt with a total contract value of \$48,700. A summary follows of the estimated fair values of the assets acquired and the liabilities assumed as of the respective dates of the acquisitions:

|                                    | <b>Allocation<br/>student<br/>housing<br/>acquisitions</b> |
|------------------------------------|--|
| Current assets and restricted cash | \$ 791   |
| Student housing properties         | 117,390  |
| Goodwill and other intangibles     | 1,209  |
| Other                              | 443  |
| <b>Total assets acquired</b>       | <b>119,833</b>   |

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|   |           |
|---|-----------|
| Current liabilities                           | (1,668)   |
| Mortgage debt assumed net of premium/discount | (51,408)  |
| Acquisition costs                             | (1,231)   |
| Purchase price                                | \$ 65,526 |

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The results of operations for each acquisition have been included in our consolidated statements of operations from the respective acquisition dates. In connection with the acquisitions that occurred during 2005, \$3,070 and \$5,926 was allocated to goodwill and other identifiable intangibles (in-place leases and management contracts), respectively. In connection with the Statesboro acquisition discussed above, \$159 was allocated to other identifiable intangibles (in-place leases). In-place lease intangibles and management contracts are amortized over the estimated life of the remaining lease/contract term. Accumulated amortization was \$5,894 and \$5,449 for the years ended December 31, 2006 and 2005, respectively. Amortization expense totaled \$445 and \$5,449 for the years ended December 31, 2006 and 2005, respectively. Amortization expense for fiscal 2007 is estimated to be \$261 and \$34 annually in each of the four fiscal years following fiscal 2007. In accordance with SFAS No. 142, goodwill is not subject to amortization. The carrying value of goodwill is \$3,458 (includes the addition of \$388 related to the redemption of minority interest discussed in note 2) and \$3,070 at December 31, 2006 and 2005, respectively.

The following unaudited pro forma financial information for the years ended December 31, 2006 and 2005 gives effect to the acquisitions as if the transactions had occurred at the beginning of the respective period:

|                    | <b>2006</b> | <b>2005</b> |
|--------------------|-------------|-------------|
| Pro forma revenue  | \$ 120,274  | \$ 116,974  |
| Pro forma net loss | (11,961)    | (15,337)    |
| Loss per share     | (0.45)      | (0.56)      |

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.

**6. Student housing properties**

Student housing properties consist of the following at December 31, 2006 and 2005 for the Trust, respectively:

|                                   | <b>2006</b> | <b>2005</b> |
|-----------------------------------|-------------|-------------|
| Land                              | \$ 65,260   | \$ 50,818   |
| Land improvements                 | 54,825      | 44,802      |
| Construction in progress          | 88          | 542         |
| Buildings                         | 697,631     | 512,544     |
| Furniture, fixtures and equipment | 45,444      | 34,809      |
|                                   | 863,248     | 643,515     |
| Less accumulated depreciation     | (58,489)    | (23,210)    |
| Student housing properties, net   | \$ 804,759  | \$ 620,305  |

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Following is certain information related to the Trust's investment in student housing properties as of December 31, 2006:

| Property  | Initial Cost |          |                            |           | Cost   | Total Costs                |           |              |          | Date of Acquisition |
|---|--------------|----------|----------------------------|-----------|--------|----------------------------|-----------|--------------|----------|---------------------|
|   | Encumbrances | Land     | Buildings and Improvements | Total     |        | Buildings and Improvements | Total     | Depreciation |          |                     |
| University Towers                                     | \$ 23,996    | \$ 2,195 | \$ 31,035                  | \$ 33,230 | \$ 587 | \$ 2,195                   | \$ 31,622 | \$ 33,817    | \$ 2,920 | 01/31/05            |
| The Gables  | 4,499        | 198      | 5,099                      | 5,297     | 77     | 198                        | 5,176     | 5,374        | 525      | 01/31/05            |
| The Reserve at Athens                                 |              | 1,740    | 17,985                     | 19,725    | 161    | 1,740                      | 18,146    | 19,886       | 1,524    | 01/31/05            |
| Players Club College Station                          |              | 727      | 7,498                      | 8,225     | 141    | 727                        | 7,639     | 8,366        | 652      | 01/31/05            |
| The Reserve at Clemson                                |              | 244      | 2,190                      | 2,434     | 129    | 244                        | 2,319     | 2,563        | 318      | 01/31/05            |
| NorthPointe   | 11,810       | 625      | 18,230                     | 18,855    | 223    | 625                        | 18,453    | 19,078       | 1,656    | 01/31/05            |
| The Pointe at South Florida                           | 18,562       | 2,498    | 27,323                     | 29,821    | 309    | 2,498                      | 27,632    | 30,130       | 2,266    | 01/31/05            |
| The Reserve on Perkins(1)                             | 23,900       | 3,508    | 30,510                     | 34,018    | 632    | 3,508                      | 31,142    | 34,650       | 2,848    | 01/31/05            |
| The Commons at Knoxville                              |              | 913      | 15,795                     | 16,708    | 320    | 913                        | 16,115    | 17,028       | 1,504    | 01/31/05            |
| The Reserve at Tallahassee                            | 32,000       | 4,630    | 18,386                     | 23,016    | 244    | 4,630                      | 18,630    | 23,260       | 1,672    | 01/31/05            |
| The Pointe at Western College Station at W. Lafayette |              | 2,743    | 21,176                     | 23,919    | 325    | 2,743                      | 21,501    | 24,244       | 1,863    | 01/31/05            |
| The Commons on Kinnear                                | 21,600       | 1,096    | 30,647                     | 31,743    | 212    | 1,096                      | 30,859    | 31,955       | 2,678    | 01/31/05            |
| The Reserve at Penn State(2)                          | 14,800       | 1,887    | 19,528                     | 21,415    | 192    | 1,887                      | 19,720    | 21,607       | 1,957    | 01/31/05            |
| The Reserve at Star Pass                              | 14,700       | 1,327    | 20,803                     | 22,130    | 162    | 1,327                      | 20,965    | 22,292       | 1,619    | 01/31/05            |
| The Reserve at Columbia                               |              | 2,151    | 35,094                     | 37,245    | 248    | 2,151                      | 35,342    | 37,493       | 2,888    | 01/31/05            |
|   | 50,740       | 1,584    | 30,810                     | 32,394    | 355    | 1,584                      | 31,165    | 32,749       | 2,696    | 01/31/05            |
|   | 19,400       | 1,071    | 26,134                     | 27,205    | 187    | 1,071                      | 26,321    | 27,392       | 2,051    | 01/31/05            |
|   | 14,500       | 1,181    | 26,758                     | 27,939    | 289    | 1,181                      | 27,047    | 28,228       | 2,541    | 01/31/05            |

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|   |        |       |        |        |       |       |        |        |       |          |
|---|--------|-------|--------|--------|-------|-------|--------|--------|-------|----------|
| The Reserve on Frankford                |        |       |        |        |       |       |        |        |       |          |
| The Village on Tharpe                   |        | 5,410 | 46,504 | 51,914 | 459   | 5,410 | 46,963 | 52,373 | 3,901 | 01/31/05 |
| The Lofts                               | 26,500 | 2,801 | 34,117 | 36,918 | 152   | 2,801 | 34,269 | 37,070 | 2,512 | 01/31/05 |
| The Reserve on West 31st Campus         |        | 1,896 | 14,920 | 16,816 | 773   | 1,896 | 15,693 | 17,589 | 1,411 | 01/31/05 |
| Creek                                   |        | 2,251 | 21,604 | 23,855 | 427   | 2,251 | 22,031 | 24,282 | 1,751 | 02/22/05 |
| Pointe West Campus                      | 11,148 | 2,318 | 10,924 | 13,242 | 234   | 2,318 | 11,158 | 13,476 | 1,080 | 03/17/05 |
| Lodge                                   | 37,313 | 2,746 | 44,415 | 47,161 | 300   | 2,746 | 44,715 | 47,461 | 3,075 | 06/07/05 |
| College Grove                           |        | 1,334 | 19,270 | 20,604 | 1,050 | 1,334 | 20,320 | 21,654 | 1,935 | 04/27/05 |
| The Reserve on South College Statesboro |        | 1,744 | 10,784 | 12,528 | 1,051 | 1,744 | 11,835 | 13,579 | 902   | 07/06/05 |
| Players Club                            |        | 2,028 | 10,675 | 12,703 | 323   | 2,028 | 10,998 | 13,026 | 234   | 06/15/06 |
| Troy Place                              | 9,440  | 523   | 12,404 | 12,927 | 34    | 523   | 12,438 | 12,961 | 511   | 01/01/06 |
| Jacksonville Place                      | 11,120 | 628   | 14,532 | 15,160 | 12    | 628   | 14,544 | 15,172 | 582   | 01/01/06 |
| Statesboro Place                        |        | 1,180 | 17,288 | 18,468 | 18    | 1,180 | 17,306 | 18,486 | 685   | 01/01/06 |
| Macon Place                             | 7,440  | 340   | 9,856  | 10,196 | 1     | 340   | 9,857  | 10,197 | 405   | 01/01/06 |
| Clayton Place                           | 24,540 | 4,291 | 28,843 | 33,134 | 24    | 4,291 | 28,867 | 33,158 | 1,076 | 01/01/06 |
| Carrollton Place                        |        | 682   | 12,166 | 12,848 | 21    | 682   | 12,187 | 12,869 | 441   | 01/01/06 |

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| Property              | Encumbrances | Initial Cost |                                  |            | Cost                        |           | Total Costs                      |            | Accumulated<br>Depreciation | Date of<br>Acquisition |
|-----------------------|--------------|--------------|----------------------------------|------------|-----------------------------|-----------|----------------------------------|------------|-----------------------------|------------------------|
|                       |              | Land         | Buildings<br>and<br>Improvements | Total      | Subsequently<br>Capitalized | Land      | Buildings<br>and<br>Improvements | Total      |                             |                        |
| River Place           | 13,680       | 837          | 17,746                           | 18,583     | 21                          | 837       | 17,767                           | 18,604     | 708                         | 01/01/06               |
| Murray<br>Place       | 6,800        | 550          | 8,864                            | 9,414      | 47                          | 550       | 8,911                            | 9,461      | 411                         | 01/01/06               |
| Western<br>Place      |              | 660          | 16,332                           | 16,992     | 24                          | 660       | 16,356                           | 17,016     | 641                         | 01/01/06               |
| Cape Place<br>Clemson | 8,520        | 445          | 11,207                           | 11,652     | 42                          | 445       | 11,249                           | 11,694     | 460                         | 01/01/06               |
| Place<br>Berkeley     | 8,160        | 759          | 10,317                           | 11,076     | 15                          | 759       | 10,332                           | 11,091     | 406                         | 01/01/06               |
| Place<br>Martin       |              | 1,048        | 18,497                           | 19,545     | 24                          | 1,048     | 18,521                           | 19,569     | 703                         | 01/01/06               |
| Place                 | 8,960        | 471          | 11,784                           | 12,255     | 93                          | 471       | 11,877                           | 12,348     | 481                         | 01/01/06               |
| Totals                | \$ 424,128   | \$ 65,260    | \$ 788,050                       | \$ 853,310 | \$ 9,938                    | \$ 65,260 | \$ 797,988                       | \$ 863,248 | \$ 58,489                   |                        |

(1) The Reserve on Perkins is cross collateralized with The Commons at Knoxville against the \$32,000 outstanding loan.

(2) The Pointe at Penn State is cross collateralized with The Reserve at Star Pass against the \$50,740 outstanding loan.

(3)

All properties are garden-style student housing communities except for University Towers which is a traditional residence hall.

- (4) Assets have useful lives ranging from 3 to 40 years.

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The following table reconciles the historical cost of the Trust's investment in student housing properties for the years ended December 31, 2006 and 2005 and the EDR Predecessor's investment in student housing properties for the year ended December 31, 2004:

|                              | <b>Education Realty<br/>Trust, Inc.</b> |             | <b>EDR<br/>Predecessor</b> |
|------------------------------|---|-------------|----------------------------|
|                              | <b>2006</b>                             | <b>2005</b> | <b>2004</b>                |
| Balance, beginning of period | \$ 643,515                              | \$          | \$ 100,495                 |
| Student housing acquisitions | 214,953                                 | 638,357     |                            |
| Additions                    | 4,860                                   | 5,513       | 517                        |
| Disposals                    | (80)                                    | (355)       |                            |
| Balance, end of period       | \$ 863,248                              | \$ 643,515  | \$ 101,012                 |

The following table reconciles the accumulated depreciation of the Trust's investment in student housing properties for the years ended December 31, 2006 and 2005 and the EDR Predecessor's investment in student housing properties for the year ended December 31, 2004:

|                              | <b>Education Realty<br/>Trust, Inc.</b> |             | <b>EDR<br/>Predecessor</b> |
|------------------------------|---|-------------|----------------------------|
|                              | <b>2006</b>                             | <b>2005</b> | <b>2004</b>                |
| Balance, beginning of period | \$ 23,210                               | \$          | \$ 14,107                  |
| Depreciation                 | 35,320                                  | 23,219      | 3,120                      |
| Disposals                    | (41)                                    | (9)         |                            |
| Balance, end of period       | \$ 58,489                               | \$ 23,210   | \$ 17,227                  |

**7. Investments in unconsolidated entities**

The Trust's and EDR Predecessor's ownership in SSAD, SSAD LLC, ULAD LLC, Hines/ AOES LLC, CUPA LLC, Lock Haven LLC, Clarion LLC, Bloomsburg LLC, AP LLC, AODC/CPA, LLC, University Village-Greensboro LLC, WEDR Riverside Investors V, LLC, WEDR Stinson Investors V, LLC, APF EDR, LP, and APF EDR Food Services, LP is accounted for under the equity method. The following is a summary of financial information for the Trust's unconsolidated joint ventures, limited liability companies, and limited partnerships at December 31, 2006 and 2005 and for the years ended December 31, 2006 and 2005 and for the EDR Predecessor for the year ended December 31, 2004. The Trust had no unconsolidated joint ventures at December 31, 2004.

|   | <b>2006</b> | <b>2005</b> |
|---|-------------|-------------|
| <b>Financial Position:</b>  |             |             |
| Total assets  | \$ 126,626  | \$ 80       |
| Total liabilities   | 92,528      | 340         |
| Equity (deficit)  | 34,098      | (260)       |
| Trust's and EDR Predecessor's investment in unconsolidated entities | \$ 3,134    | \$ (130)    |



|   | <b>Education Realty<br/>Trust, Inc.</b> |             | <b>EDR<br/>Predecessor</b> |
|---|---|-------------|----------------------------|
|   | <b>2006</b>                             | <b>2005</b> | <b>2004</b>                |
| <b>Results of Operations:</b>   |   |             |                            |
| Revenues  | \$ 3,909                                | \$ 1,770    | \$ 2,272                   |
| Net income  | 1,013                                   | 1,720       | 2,167                      |
| Trust's and EDR Predecessor's equity in earnings of unconsolidated entities | \$ 740                                  | \$ 853      | \$ 1,002                   |

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These entities provide development consulting services to third party student housing owners in an agency capacity or own student housing communities which are managed by the Trust.

**8. Incentive plans**

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 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.

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 year ended December 31, 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 December 31, 2006 and 2005, unearned compensation totaled \$1,866 and \$2,470, respectively 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 years ended December 31, 2006 and 2005, compensation expense of \$604 and \$500, respectively, 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 year ended December 31, 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.

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 years ended December 31, 2006 and 2005 was approximately \$796 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 in the accompanying statement of changes in stockholders' equity.

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A summary of the Trust's stock-based incentive plan activity for the years ended December 31, 2006 and 2005 is as follows:

|                                  | <b>PIU s</b> | <b>Restricted<br/>Stock</b> | <b>Total</b> |
|----------------------------------|--------------|-----------------------------|--------------|
| Initial issuance                 | 220,000      | 174,000                     | 394,000      |
| Granted                          | 25,000       | 12,000                      | 37,000       |
| Outstanding at December 31, 2005 | 245,000      | 186,000                     | 431,000      |
| Granted                          | 22,500       | 6,000                       | 26,000       |
| Retired                          | (2,500)      |                             |              |
| Outstanding at December 31, 2006 | 265,000      | 192,000                     | 457,000      |
| Vested at December 31, 2006      | 265,000      | 80,889                      | 345,889      |

**9. Debt*****Notes payable and revolving 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 by 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 December 31, 2006, there was \$22,400 outstanding under the Amended Revolver and \$47,000 outstanding under the Term Loan. The Term Loan requires interest only payments through maturity. 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 (7.08% at December 31, 2006). 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% (8.08% at December 31, 2006).

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 (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 (see note 17).

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

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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.

**Mortgage debt**

At December 31, 2006 the Trust had mortgage notes payable consisting of the following notes which were secured by the underlying student housing properties or leaseholds consisting of:

| <b>Property</b>                                      | <b>Outstanding<br/>at<br/>December<br/>31,<br/>2006</b> | <b>Contractual<br/>Fixed<br/>Interest Rate</b> | <b>Maturity<br/>Date</b> | <b>Amortization</b> |
|--|---|--|--------------------------|---------------------|
| University Towers                                    | \$ 23,563   | 6.77%  | 3/1/2008                 | 30 Year             |
| The Reserve at Clemson                               | 11,651  | 6.63%  | 5/1/2007                 | 30 Year             |
| The Gables   | 4,433   | 5.50%  | 11/1/2013                | 30 Year             |
| NorthPointe  | 18,312  | 6.63%  | 5/1/2007                 | 30 Year             |
| The Pointe at S. Florida                             | 23,779  | 5.48%  | 7/7/2009                 | 30 Year             |
| The Pointe at Western                                | 21,490  | 5.48%  | 7/7/2009                 | 30 Year             |
| The Lofts  | 26,500  | 3.49%  | 4/5/2007                 | 30 Year             |
| The Reserve on Perkins/The Commons at<br>Knoxville   | 31,838  | 5.48%  | 7/7/2009                 | 30 Year             |
| The Pointe at Penn State/The Reserve at Star<br>Pass | 50,482  | 5.48%  | 7/7/2009                 | 30 Year             |
| Campus Lodge   | 36,854  | 6.97%  | 5/1/2012                 | 30 Year             |
| Pointe West  | 10,986  | 4.92%  | 8/1/2014                 | 30 Year             |
| College Station at W. Lafayette                      | 14,725  | 5.48%  | 7/7/2009                 | 30 Year             |
| The Commons on Kinnear                               | 14,625  | 5.48%  | 7/7/2009                 | 30 Year             |
| The Reserve at Frankford                             | 14,426  | 5.48%  | 7/7/2009                 | 30 Year             |
| The Reserve at Columbia                              | 19,301  | 5.48%  | 7/7/2009                 | 30 Year             |
| Troy Place   | 9,440   | 6.44%  | 12/9/2009                | 30 Year             |
| Jacksonville Place                                   | 11,120  | 6.44%  | 12/9/2009                | 30 Year             |
| Macon Place  | 7,440   | 6.44%  | 12/9/2009                | 30 Year             |
| Clayton Place  | 24,540  | 6.44%  | 12/9/2009                | 30 Year             |
| River Place  | 13,680  | 6.44%  | 12/9/2009                | 30 Year             |
| Murray Place   | 6,800   | 6.44%  | 12/9/2009                | 30 Year             |
| Cape Place   | 8,520   | 6.44%  | 12/9/2009                | 30 Year             |
| Clemson Place  | 8,160   | 6.44%  | 12/9/2009                | 30 Year             |
| Martin Place   | 8,960   | 6.44%  | 12/9/2009                | 30 Year             |
| Total debt /weighted average rate                    | 421,625   | 5.85%  |                          |                     |
| Unamortized premium                                  | 2,308   |  |                          |                     |
| Total mortgage loans net of unamortized<br>premium   | 423,933   |  |                          |                     |
| Less current portion of mortgage debt                | (60,158)  |  |                          |                     |

Total long-term debt, net of current portion      \$    363,775

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At December 31, 2005 the Trust had mortgage notes payable consisting of the following notes which were secured by the underlying student housing properties or leaseholds consisting of:

| <b>Property</b>                                      | <b>Outstanding<br/>at<br/>December<br/>31,<br/>2005</b> | <b>Contractual<br/>Fixed<br/>Interest Rate</b> | <b>Maturity<br/>Date</b> | <b>Amortization</b> |
|--|---|--|--------------------------|---------------------|
| University Towers                                    | \$ 23,996   | 6.77%  | 3/1/2008                 | 30 Year             |
| The Reserve at Clemson                               | 11,810  | 6.63%  | 5/1/2007                 | 30 Year             |
| The Gables   | 4,499   | 5.50%  | 11/1/2013                | 30 Year             |
| NorthPointe  | 18,562  | 6.63%  | 5/1/2007                 | 30 Year             |
| The Pointe at S. Florida                             | 23,900  | 5.48%  | 7/7/2009                 | 30 Year             |
| The Pointe at Western                                | 21,600  | 5.48%  | 7/7/2009                 | 30 Year             |
| The Lofts  | 26,500  | 3.49%  | 4/5/2007                 | 30 Year             |
| The Reserve on Perkins/The Commons at<br>Knoxville   | 32,000  | 5.48%  | 7/7/2009                 | 30 Year             |
| The Pointe at Penn State/The Reserve at Star<br>Pass | 50,740  | 5.48%  | 7/7/2009                 | 30 Year             |
| Campus Lodge   | 37,313  | 6.97%  | 5/1/2012                 | 30 Year             |
| Pointe West  | 11,148  | 4.92%  | 8/1/2014                 | 30 Year             |
| College Station at W. Lafayette                      | 14,800  | 5.48%  | 7/7/2009                 | 30 Year             |
| The Commons on Kinnear                               | 14,700  | 5.48%  | 7/7/2009                 | 30 Year             |
| The Reserve at Frankford                             | 14,500  | 5.48%  | 7/7/2009                 | 30 Year             |
| The Reserve at Columbia                              | 19,400  | 5.48%  | 7/7/2009                 | 30 Year             |
| Total debt /weighted average rate                    | 325,468   | 5.67%  |                          |                     |
| Unamortized premium                                  | 2,867   |  |                          |                     |
| Total mortgage loans net of unamortized<br>premium   | 328,335   |  |                          |                     |
| Less current portion of mortgage debt                | (2,932)   |  |                          |                     |
| Total long-term debt, net of current portion         | \$ 325,403  |  |                          |                     |

Scheduled maturities of all outstanding debt, including non-mortgage debt not shown above, as of December 31, 2006 are as follows:

| <b>Year</b> |           |
|-------------|-----------|
| 2007        | \$ 60,158 |
| 2008        | 26,481    |
| 2009        | 354,449   |
| 2010        | 888       |
| 2011        | 947       |



|  |            |
|--|------------|
| Thereafter   | 48,102     |
| Total  | \$ 491,025 |
| Debt premium   | 2,308      |
| Outstanding as of December 31, 2006, net of debt premium | \$ 493,333 |

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The following table reconciles the carrying amount of mortgage debt for the years ended December 31, 2006 and 2005 for the Trust and for the year ended December 31, 2004 for the EDR Predecessor (the Trust had no outstanding mortgage debt during 2004):

|   | <b>Education Realty<br/>Trust, Inc.</b> |             | <b>EDR<br/>Predecessor</b> |
|---|---|-------------|----------------------------|
|   | <b>2006</b>                             | <b>2005</b> | <b>2004</b>                |
| Balance, beginning of period              | \$ 328,335                              | \$          | \$ 82,204                  |
| Assumption of mortgage debt at fair value | 98,660                                  | 444,964     |                            |
| Additions                                 |   | 6           |                            |
| Repayments of principal                   | (2,503)                                 | (116,271)   | (1,093)                    |
| Amortization of premium                   | (559)                                   | (364)       |                            |
| Balance, end of period                    | \$ 423,933                              | \$ 328,335  | \$ 81,111                  |

**10. Segments**

The Trust and EDR Predecessor define business segments by their distinct customer base and service provided. The Trust and EDR Predecessor have identified three reportable segments: student housing leasing, student housing development-consulting services, and student housing 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. The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies.

Intercompany fees are reflected at the contractually stipulated amounts. The following table represents the Trust's and EDR Predecessor's segment information for the years ended December 31, 2006, 2005 and 2004:

|   | <b>Education Realty<br/>Trust, Inc.</b> |             | <b>EDR<br/>Predecessor</b> |
|---|---|-------------|----------------------------|
|   | <b>2006</b>                             | <b>2005</b> | <b>2004</b>                |
| Student Housing Leasing                       |   |             |                            |
| Rental revenues                               | \$ 87,438                               | \$ 75,877   | \$ 16,353                  |
| Food service revenue                          | 3,634                                   | 3,491       | 4,680                      |
| Other leasing revenue                         | 14,012                                  |             |                            |
| Total revenues from external customers        | 105,084                                 | 79,368      | 21,033                     |
| Rental expenses                               | 42,669                                  | 37,794      | 7,786                      |
| Food service expenses                         | 3,318                                   | 3,275       | 2,758                      |
| Intersegment expense                          | 3,544                                   | 2,644       | 973                        |
| Net operating income                          | \$ 55,553                               | \$ 35,655   | \$ 9,516                   |
| Depreciation and amortization                 | \$ 36,215                               | \$ 30,271   | \$ 3,283                   |
| Interest expense                              | \$ 28,493                               | \$ 16,307   | \$ 5,623                   |
| Equity in earnings of unconsolidated entities | \$ (74)                                 | \$          | \$                         |
| Total segment assets, end of the period       | \$ 818,832                              | \$ 638,312  | \$ 88,166                  |

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|  |          |          |          |
|--|----------|----------|----------|
| Student Housing Development Consulting Services  |          |          |          |
| Development consulting fees  | \$ 3,773 | \$ 1,759 | \$ 392   |
| Operating expense reimbursements   | 607      | 848      | 311      |
| Total revenues from external customers   | 4,380    | 2,607    | 703      |
| Development consulting expenses  |          |          | 136      |
| General and administrative   | 2,210    | 1,339    | 838      |
| Reimbursable operating expenses  | 607      | 848      | 311      |
| Corporate overhead allocation  |          | 906      | 355      |
| Net operating income (loss)  | \$ 1,563 | \$ (486) | \$ (937) |
| Interest income  |          | 6        |          |
| Equity in earnings of unconsolidated entities  | \$ 814   | \$ 880   | \$ 1,002 |
| Total segment assets, end of period (includes goodwill of \$921 at December 31, 2006 and 2005) | \$ 2,082 | \$ 1,825 | \$ 38    |

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|   | <b>Education Realty<br/>Trust, Inc.</b> |             | <b>EDR<br/>Predecessor</b> |
|---|---|-------------|----------------------------|
|   | <b>2006</b>                             | <b>2005</b> | <b>2004</b>                |
| Student Housing Management Services   |   |             |                            |
| Management fees from external customers   | \$ 2,796                                | \$ 1,968    | \$ 1,326                   |
| Operating expense reimbursements  | 7,031                                   | 5,846       | 4,912                      |
| Total revenues from external customers  | 9,827                                   | 7,814       | 6,238                      |
| Intersegment revenues   | 3,544                                   | 2,644       | 973                        |
| Total revenues  | 13,371                                  | 10,458      | 7,211                      |
| General and administrative expenses   | 5,004                                   | 2,037       | 1,556                      |
| Reimbursable operating expenses   | 7,031                                   | 5,846       | 4,912                      |
| Corporate overhead allocation   |   | 1,932       | 660                        |
| Net operating income  | \$ 1,336                                | \$ 643      | \$ 83                      |
| Total segment assets, end of period (includes goodwill of \$2,149)  | \$ 5,567                                | \$ 5,084    | \$ 670                     |
| Reconciliation of segment net operating income before taxes and minority interest to the Trust's net operating income before taxes and minority interest: |   |             |                            |
| Total segment revenues  | \$ 122,835                              | \$ 92,433   | \$ 28,947                  |
| Elimination of intersegment revenues  | (3,544)                                 | (2,644)     | (973)                      |
| Total consolidated revenues   | \$ 119,291                              | \$ 89,789   | \$ 27,974                  |
| Segment net operating income before taxes and minority interest   | \$ 58,452                               | \$ 35,812   | \$ 8,662                   |
| Depreciation and amortization   | 36,215                                  | 31,072      | 3,283                      |
| Interest expense  | \$ 28,760                               | 16,665      | 5,623                      |
| Interest income   | (267)                                   | (1,303)     |                            |
| Equity in earnings of unconsolidated entities   | (740)                                   | (880)       | (1,002)                    |
| Unallocated corporate amounts:  |   |             |                            |
| Non cash compensation charge for PIUs and restricted stock  | 796                                     | 4,679       |                            |
| Other corporate expenses  | \$ 5,629                                | 1,656       |                            |
| Net income (loss) before taxes and minority interest  | \$ (11,941)                             | \$ (16,077) | \$ 758                     |
| Reconciliation of segment assets at December 31, 2006 to the Trust's total assets as of December 31, 2006:  |   |             |                            |
| Total segment assets, end of period (includes goodwill of \$3,070)  | \$ 826,481                              | \$ 645,221  | \$ 88,874                  |
| Unallocated corporate amounts:  |   |             |                            |
| Cash  | 2,752                                   | 52,689      |                            |

|                                 |            |            |           |
|---------------------------------|------------|------------|-----------|
| Other assets                    | 4,801      | 4,870      |           |
| Deferred financing costs, net   | 1,424      | 1,269      |           |
| Total assets, December 31, 2006 | \$ 835,458 | \$ 704,049 | \$ 88,874 |

**11. Related party transactions**

Allen & O Hara, Inc. ( A&O ), 100% owned by the Promoter, incurred certain common costs on behalf of the entities comprising the EDR Predecessor. These costs relate to human resources, information technology, legal, and certain management personnel. A&O allocated the costs to the EDR Predecessor based on time and effort expended. Indirect costs were allocated monthly in an amount that approximated what management believed costs would have been had each entity operated on a stand-alone basis. The allocated expense totaled \$1,015 for the year ended December 31, 2004. For the years ended December 31, 2006 and 2005, the Trust incurred common costs on behalf of Allen & O Hara, Inc. in the amount of \$372 and \$560, respectively. The costs were allocated to Allen & O Hara, Inc. in the same manner Allen & O Hara, Inc. allocated costs to the EDR Predecessor discussed above.

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The Trust and EDR Predecessor engage A&O to procure furniture, fixtures and equipment from third party vendors for its owned and managed properties and for third-party owners in connection with its development consulting projects. The Trust and EDR Predecessor incurs a service fee in connection with this arrangement and the expense totaled less than \$100 for each of the three years in the period ended December 31, 2006.

In March of 2006, A&O paid a bonus of \$210 in total to former executives of A&O that are currently employed by the Trust. The bonus was paid to compensate these executives for services provided to A&O prior to January 30, 2005.

**12. Lease commitments and unconditional purchase obligations**

The Trust and EDR Predecessor have various operating leases for furniture, office and technology equipment which expire through fiscal year 2015. Rental expense under the operating lease agreements approximated \$588, \$438 and \$41 for the years ended December 31, 2006, 2005, and 2004, respectively. Furthermore, the Trust has entered into various contracts for advertising which will expire through fiscal year 2008.

Future minimum rental payments required under operating leases that have initial or remaining noncancellable lease terms as well as future minimum payments required under advertising contracts that have noncancellable terms in excess of one year as of December 31, 2006 are as follows:

| <b>Year Ending</b> | <b>2006<br/>advertising</b> | <b>2006<br/>leases</b> |
|--------------------|-----------------------------|------------------------|
| 2007               | \$ 161                      | \$2,563                |
| 2008               | 67                          | 2,245                  |
| 2009               |                             | 1,970                  |
| 2010               |                             | 1,727                  |
| 2011               |                             | 1,519                  |
| Thereafter         |                             | 908                    |

**13. Employee savings plan**

The Trust or the EDR Predecessor's eligible employees may participate in a 401(k) savings plan (the Plan). Participants may contribute up to 15% of their earnings to the Plan. Employees are eligible to participate in the Plan on the first day of the next calendar quarter following six months of service and reaching 21 years of age. Additionally a matching contribution of 50% is provided on eligible employees' contributions up to the first 3% of compensation. Employees vest in the matching contribution over a 3-year period. Matching contributions were approximately \$128, \$44 and \$18 for the years ended December 31, 2006, 2005 and 2004, respectively.

**14. Accrued expenses**

Accrued expenses consist of the following at December 31, 2006 and 2005 for the Trust:

|                        | <b>2006</b> | <b>2005</b> |
|------------------------|-------------|-------------|
| Payroll                | \$ 1,715    | \$ 1,331    |
| Real estate taxes      | 3,022       | 2,755       |
| Interest               | 1,851       | 1,435       |
| Utilities              | 351         | 419         |
| Other                  | 3,129       | 1,355       |
| Total accrued expenses | \$ 10,068   | \$ 7,295    |

**15. Commitments and contingencies**

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

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

Housing Amendments Act of 1988. The notification included one of the student housing properties we 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.

The Operating Partnership entered into a letter of credit agreement in conjunction with the closing of the acquisition of a student housing property at the University of Florida. The letter of credit has a \$1,500 balance outstanding at December 31, 2006 and 2005 and is secured by the Operating Partnership's existing revolving credit facility.

On May 10, 2006, in connection with the Trust's investment in University Village Greensboro LLC, the Operating Partnership guaranteed \$23,200 of construction debt held by the 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.

**16. Quarterly financial information (unaudited)**

Quarterly financial information for the years ended December 31, 2006 and 2005 is summarized below:

| <b>2006</b>                                      | <b>1st<br/>Quarter</b> | <b>2nd<br/>Quarter</b> | <b>3rd<br/>Quarter</b> | <b>4th<br/>Quarter</b> | <b>Total</b> |
|--|------------------------|------------------------|------------------------|------------------------|--------------|
| Revenues   | \$ 29,985              | \$ 29,129              | \$ 27,779              | \$ 32,398              | \$ 119,291   |
| Operating expenses                               | 24,076                 | 24,394                 | 28,489                 | 25,080                 | 102,039      |
| Nonoperating expenses                            | 6,935                  | 7,411                  | 7,731                  | 7,856                  | 29,933       |
| Equity in earnings of<br>unconsolidated entities | 283                    | 142                    | 148                    | 167                    | 740          |
| Income taxes (expense)/benefit                   | 104                    | (186)                  | (381)                  | (196)                  | (659)        |
| Minority interest                                | (141)                  | 206                    | 485                    | (195)                  | 355          |
| Net income (loss)                                | \$ (780)               | \$ (2,514)             | \$ (8,189)             | \$ (762)               | \$ (12,245)  |
| Net income (loss) per share-basic<br>and diluted | \$ (.03)               | \$ (.10)               | \$ (.31)               | \$ (.03)               | \$ (.46)     |

| <b>2005</b>        | <b>1st<br/>Quarter</b> | <b>2nd<br/>Quarter</b> | <b>3rd<br/>Quarter</b> | <b>4th<br/>Quarter</b> | <b>Total</b> |
|--------------------|------------------------|------------------------|------------------------|------------------------|--------------|
| Revenues           | \$ 13,660              | \$ 21,855              | \$ 23,814              | \$ 27,914              | \$ 87,243    |
| Operating expenses | 17,045                 | 22,275                 | 26,719                 | 21,364                 | 87,403       |



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|  |            |            |            |          |             |
|--|------------|------------|------------|----------|-------------|
| Nonoperating expenses                            | 3,498      | 4,237      | 4,888      | 4,164    | 16,787      |
| Equity in earnings of<br>unconsolidated entities | 71         | 158        | 331        | 293      | 853         |
| Income taxes (expense)/benefit                   | 66         | 104        | (340)      | (327)    | (497)       |
| Minority interest                                | 431        | 335        | 618        | (344)    | 1,040       |
| Net income (loss)                                | \$ (6,315) | \$ (4,060) | \$ (7,184) | \$ 2,008 | \$ (15,551) |
| Net income (loss) per share-basic<br>and diluted | \$ (.29)   | \$ (.19)   | \$ (.33)   | \$ .08   | \$ (.67)    |

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**EDUCATION REALTY TRUST, INC. AND  
SUBSIDIARIES AND EDR PREDECESSOR  
NOTES TO THE CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS  
(Amounts in thousands, except share and per share data)**

**17. Subsequent events**

On January 5, 2007 the Trust entered into an agreement to sell the student housing community, College Station, located in Augusta, Georgia. The purchaser had until February 28, 2007 to perform due diligence during the inspection period. On February 28, 2007 the inspection period was extended 15 days. If the purchaser decides not to close the agreement within the inspection period all earnest money will be returned to the purchaser. If the purchaser elects to proceed with the agreement and delivers notice to proceed, within the inspection period, the agreement remains in full effect and the purchaser's right to terminate the agreement is waived.

On January 9, 2007 our board of directors declared a fourth quarter distribution of \$0.205 per share of common stock for the quarter ending on December 31, 2006. The distribution was payable on February 6, 2007 to stockholders of record at the close of business on January 23, 2007.

On January 16, 2007 the Trust issued 212,067 shares of common stock under the direct stock purchase plan. The common stock was issued at a price of \$14.24 per share.

On February 6, 2007 the Trust issued 2,775 shares of common stock under the dividend reinvestment plan. The common stock was issued at a price of \$14.83 per share.

On February 15, 2007 the Trust issued 246,032 shares of common stock under the direct stock purchase plan. The common stock was issued at a price of \$14.76 per share.

On February 23, 2007 the Trust entered into an agreement to sell the student housing community, The Village on Tharpe, located in Tallahassee, Florida. The purchaser has a 30 day inspection period, which starts on the effective date of the agreement, to perform due diligence. If the purchaser decides not to close the agreement within the inspection period all earnest money will be returned to the purchaser. If the purchaser elects to proceed with the agreement and delivers notice to proceed, within the inspection period, the agreement remains in full effect and the purchaser's right to terminate the agreement is waived.

On February 28, 2007 the warrants issued to JPI in connection with the JPI Portfolio acquisition to purchase 250,000 shares of common stock at an exercise price of 103% of the offering price expired.

The Trust determined subsequent to year end it was in violation of its interest coverage ratio covenant related to the Amended Revolver at December 31, 2006. On February 27, 2007 the Trust entered into an amendment to the Amended Revolver ( First Amendment ), whereby the interest coverage ratio was adjusted from 1.85:1.00, to not less than 1.70:1.00 at all times from December 31, 2006 until March 31, 2008. However, if the Trust attains an interest coverage ratio greater than 1.85:1.00 during the effective period of the First Amendment the interest coverage ratio reverts back to 1.85:1.00 on a prospective basis.

On March 1, 2007 the Trust refinanced \$18,300 and \$11,700 of debt secured by the student housing properties referred to as Northpointe and The Reserve at Clemson, respectively. The refinanced debt is \$18,800 and \$12,000 for Northpointe and The Reserve at Clemson, respectively bearing a fixed interest rate of 5.55% maturing on March 1, 2012.

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Members of  
National Development/Allen & O Hara CUPA, LLC  
Memphis, Tennessee

We have audited the accompanying statements of operations, members' equity, and cash flows of National Development/Allen & O Hara CUPA, LLC (the Company), a limited liability company, which is owned 50% by Allen & O Hara Development Company, LLC, for the year ended December 31, 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the results of operations and cash flows of National Development/ Allen & O Hara CUPA, LLC for the year ended December 31, 2004 in conformity with accounting principles generally accepted in the United States of America.

/s/ Deloitte & Touche LLP

Memphis, Tennessee

March 30, 2005

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**NATIONAL DEVELOPMENT/ALLEN & O HARA CUPA, LLC  
BALANCE SHEETS  
December 31, 2006 (unaudited) and 2005 (unaudited)**

|  | 2006           | 2005  |
|--|----------------|-------|
|  | (In thousands) |       |
| <b>ASSETS</b>                            |                |       |
| Current assets:                          |                |       |
| Cash                                     | \$ 6           | \$ 1  |
| Receivables                              |                |       |
| Total assets                             | \$ 6           | \$ 1  |
| <b>LIABILITIES &amp; MEMBERS DEFICIT</b> |                |       |
| Current liabilities:                     |                |       |
| Accounts payable and accrued expenses    | \$ 6           | \$    |
| Deferred development revenue             | 90             | 146   |
| Total current liabilities                | 96             | 146   |
| Commitments and contingencies            |                |       |
| Members deficit                          | (90)           | (145) |
| Total liabilities and members deficit    | \$ 6           | \$ 1  |

*See accompanying notes to financial statements.*

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**NATIONAL DEVELOPMENT/ ALLEN & O HARA CUPA, LLC**  
**STATEMENTS OF OPERATIONS**  
**For the years ended December 31, 2006 (unaudited), 2005 (unaudited) and 2004**

|   | <b>2006</b>           | <b>2005</b> | <b>2004</b> |
|---|-----------------------|-------------|-------------|
|   | <b>(In thousands)</b> |             |             |
| Third-party development consulting services | \$ 635                | \$ 320      | \$ 573      |
| Operating expenses                          | 1                     | 8           | 39          |
| Net income                                  | \$ 634                | \$ 312      | \$ 534      |

*See accompanying notes to financial statements.*

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**NATIONAL DEVELOPMENT/ ALLEN & O HARA CUPA, LLC**  
**STATEMENTS OF CHANGES IN MEMBERS EQUITY (DEFICIT)**  
**For the years ended December 31, 2006 (unaudited), 2005 (unaudited) and 2004**

|  | Members Equity   |  |          |
|--|--|--|----------|
|  | Allen<br>&<br>O Hara<br>Development<br>Company,<br>LLC | National<br>Development<br>Company,<br>LLC<br><br>(In thousands) | Total    |
| Members Deficit, December 31, 2003 (unaudited) | \$ (198)   | \$ (198)   | \$ (396) |
| Distributions to members                       | (64)   | (65)   | (129)    |
| Net income                                     | 267  | 267  | 534      |
| <br>   |  |  |          |
| Members Equity, December 31, 2004              | 5  | 4  | 9        |
| Distributions to members (unaudited)           | (233)  | (233)  | (466)    |
| Net income (unaudited)                         | 156  | 156  | 312      |
| <br>   |  |  |          |
| Members Deficit, December 31, 2005 (unaudited) | (72)   | (73)   | (145)    |
| Distributions to members (unaudited)           | (290)  | (289)  | (579)    |
| Net income (unaudited)                         | 317  | 317  | 634      |
| <br>   |  |  |          |
| Members Deficit, December 31, 2006 (unaudited) | \$ (45)  | \$ (45)  | \$ (90)  |

*See accompanying notes to financial statements.*

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**NATIONAL DEVELOPMENT/ ALLEN & O HARA CUPA, LLC**  
**STATEMENTS OF CASH FLOWS**  
**For the years ended December 31, 2006 (unaudited), 2005 (unaudited) and 2004**

|   | <b>2006</b> | <b>2005</b> | <b>2004</b> |
|---|-------------|-------------|-------------|
| Operating activities:   |             |             |             |
| Net income  | \$ 634      | \$ 312      | \$ 534      |
| Adjustments to reconcile net income to net cash provided by operating activities: |             |             |             |
| Changes in assets and liabilities   |             |             |             |
| Receivables   |             | 1           | 203         |
| Accounts payable and accrued expenses   | 6           |             | (227)       |
| Deferred development fee  | (56)        | 146         | (428)       |
| Net cash provided by operating activities   | 584         | 459         | 82          |
| Financing activities:   |             |             |             |
| Distributions to members  | (579)       | (466)       | (129)       |
| Net cash used in financing activities   | (579)       | (466)       | (129)       |
| Net increase (decrease) in cash and cash equivalents                              | 5           | (7)         | (47)        |
| Cash, beginning of period   | 1           | 8           | 55          |
| Cash, end of period   | \$ 6        | \$ 1        | \$ 8        |

*See accompanying notes to financial statements.*

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**NATIONAL DEVELOPMENT/ ALLEN & O HARA CUPA, LLC**  
**NOTES TO FINANCIAL STATEMENTS**  
**Years ended December 31, 2006 (unaudited), 2005 (unaudited) and 2004**  
**(Dollars in thousands)**

**1. Ownership and operation of the company-**

National Development/ A&O CUPA, LLC (the Company) was formed on December 18, 2002 as a Tennessee Limited Liability Company. The Company was formed for the sole purpose of serving as the developer and construction advisor for a project to build a student housing facility (the Project) on the campus of the California University of Pennsylvania in California, Pennsylvania (the University). The facility is a garden style apartment complex with 700 beds consisting of both furnished and unfurnished units.

Under the terms of the Company's operating agreement, the Company is 50% owned by Allen & O Hara Development Company, LLC (AODC) and 50% owned by National Development Company, LLC (NDC). AODC serves as the Company's managing member. Additionally, NDC Builders, LLC serves as general contractor of the Project and is an affiliate of NDC.

In accordance with the terms of the Operating Agreement, the Company will automatically terminate on December 31, 2055, unless earlier terminated by the members in accordance with its terms. The Operating Agreement also stipulates the following:

Each member of the Company receives a pro-rata share of profits, losses, and distributions based on its proportional share of ownership in the Company as discussed above.

Neither member is obligated to restore any amount of the Company's deficit capital balance.

The managing member monitors the cash financial position and cash flow of the Company. If the managing member determines additional funds are needed, it may require the members to advance amounts to the Company up to \$50 in the aggregate to fund working capital needs as needed. If the members are called to advance funds, each member must contribute its pro-rata share of the amounts required and the advances will bear interest at the Prime Rate plus 3%.

Unanimous consent between the members is required to, among other things, dissolve, liquidate, merge, or consolidate the Company's assets; assign membership interests to another party; loan amounts to others; borrow funds; pledge Company assets as collateral; admit additional members; and enter into agreements with the University.

The Company executed a development consulting services agreement (the Agreement) with Student Association Inc, (the Owner), dated April 1, 2003 and commenced operations on that date. The Company received a total fee of \$1,157 for completing the responsibilities outlined in the Agreement. The fees were received in accordance with the Agreement and recognized as discussed in Note 2. The Company primarily provided development-consulting services to the Owner in an agency capacity. The project was completed in August of 2004.

The Company executed a second development consulting services agreement (the Phase IV Agreement) with the Owner on May 1, 2005. The purpose of the Phase IV Agreement is to provide an additional 447 beds of student housing and relevant common space to the Project. The total development fee for the Phase IV Agreement is \$668 of which \$348 and \$320 was recognized, as discussed in Note 2, as of December 31, 2006 and 2005, respectively.

The Company executed a third development consulting services agreement (the Phase V Agreement) with the Owner on June 27, 2006. The purpose of the Phase V Agreement is to provide an additional 354 beds of student housing and relevant common space to the Project. The total development fee for the Phase V Agreement is \$538 of which \$286 was recognized, as discussed in Note 2, as of December 31, 2006.



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**NATIONAL DEVELOPMENT/ ALLEN & O HARA CUPA, LLC  
NOTES TO FINANCIAL STATEMENTS (Continued)  
Years ended December 31, 2006 (unaudited), 2005 (unaudited) and 2004  
(Dollars in thousands)**

**2. Summary of significant accounting policies**

***Basis of presentation and accounting***

The accompanying financial statements represent the assets and liabilities and operating results of National Development/ A&O CUPA, LLC and have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States ( GAAP ). Revenues are recognized when earned and expenses and costs are recognized when incurred.

***Balance sheet classification***

Assets to be realized and obligations to be paid in the twelve months following the respective balance sheet date are classified as current.

***Use of estimates***

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

***Revenue recognition***

The Company provides development consulting services in an agency capacity with third parties whereby the fee is determined based upon the total construction costs. These fees 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.

***Fair value of financial instruments***

The carrying amount of cash, accounts receivable, and accounts payable and accrued expenses approximate fair value because of the relatively short-term nature of these instruments.

***Federal income taxes***

No provision for income taxes has been recorded in the financial statements, as the members are required to report their share of the Company's earnings in their respective income tax returns.

***Unaudited financial information***

The financial information as of December 31, 2006 and 2005 and the years ended December 31, 2006 and 2005 is unaudited, but includes all adjustments, consisting only of normal recurring adjustments, that in the opinion of management are necessary for a fair presentation of the Company's financial position, results of operations, and cash flows for such period.

**3. Related party transactions**

Initial organizational costs of the Company were incurred by an affiliate of the Company. Upon consummation of a development consulting services agreement and receipt of the related fees, the Owner reimbursed those costs to the affiliated entity from bond proceeds used to fund the Project.

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**NATIONAL DEVELOPMENT/ ALLEN & O HARA CUPA, LLC  
NOTES TO FINANCIAL STATEMENTS (Continued)  
Years ended December 31, 2006 (unaudited), 2005 (unaudited) and 2004  
(Dollars in thousands)**

AODC is the managing member of the Company. Employees of AODC incur travel and other out-of-pocket expenses in connection with completing certain responsibilities under development consulting services agreements. These expenses are paid by an affiliate of AODC. Under the terms of the Agreement, these expenses are reimbursable from project funds. Upon receipt of payment from project funds by the Owner, the Company reimburses the affiliate for the expenses incurred. The amounts reimbursed to the affiliate of AODC totaled \$16, \$130 and \$14 for the years ended December 31, 2006 (unaudited), 2005 (unaudited), and 2004.

**4. Concentration of credit risk**

The Company receives all its development consulting fees from the Owner. All receivables recorded by the Company are due from the Owner. In the event that the Owner becomes unable to meet its obligations, it could pose significant credit risks to the Company. However, all project funds for the owner to pay for development and construction costs are received from bond proceeds and are held in trust. The Trust Indenture, which is part of the closing documents for the bonds that finance the Project, governs how the project funds will be disbursed. Because of this, the Company does not believe there are any significant risks associated with its accounts receivable.

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Members of  
National Development/ Allen & O Hara Clarion, LLC  
Memphis, Tennessee

We have audited the accompanying statements of operations, members' equity, and cash flows of National Development/Allen & O Hara Clarion, LLC (the Company), a limited liability company, which is owned 50% by Allen & O Hara Development Company, LLC, for the year ended December 31, 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, results of operations and cash flows of National Development/ Allen & O Hara Clarion, LLC for the year ended December 31, 2004 in conformity with accounting principles generally accepted in the United States of America.

/s/ Deloitte & Touche LLP  
Memphis, Tennessee  
March 30, 2005

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**NATIONAL DEVELOPMENT/ ALLEN & O HARA CLARION, LLC  
BALANCE SHEETS  
December 31, 2006 (unaudited) and 2005 (unaudited)**

|   | <b>2006</b>           | <b>2005</b> |
|---|-----------------------|-------------|
|   | <b>(In thousands)</b> |             |
| <b>ASSETS</b>                           |                       |             |
| Current assets:                         |                       |             |
| Cash                                    | \$ 6                  | \$ 8        |
| Receivables                             |                       |             |
| Total assets                            | \$ 6                  | \$ 8        |
| <b>LIABILITIES &amp; MEMBERS EQUITY</b> |                       |             |
| Current liabilities:                    |                       |             |
| Accounts payable and accrued expenses   | \$                    | \$          |
| Deferred development revenue            |                       |             |
| Total current liabilities               |                       |             |
| Commitments and contingencies           |                       |             |
| Members equity                          | 6                     | 8           |
| Total liabilities and members equity    | \$ 6                  | \$ 8        |

*See accompanying notes to financial statements.*

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**NATIONAL DEVELOPMENT/ ALLEN & O HARA CLARION, LLC**  
**STATEMENTS OF OPERATIONS**  
**For the years ended December 31, 2006 (unaudited), 2005 (unaudited) and 2004**

|   | <b>2006</b>           | <b>2005</b> | <b>2004</b> |
|---|-----------------------|-------------|-------------|
|   | <b>(In thousands)</b> |             |             |
| Third-party development consulting services | \$                    | \$ 4        | \$ 764      |
| Operating expenses                          | 1                     |             | 13          |
| Net income (loss)                           | \$ (1)                | \$ 4        | \$ 751      |

*See accompanying notes to financial statements.*

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**NATIONAL DEVELOPMENT/ALLEN & O HARA CLARION, LLC**  
**STATEMENTS OF CHANGES IN MEMBERS EQUITY (DEFICIT)**  
**For the years ended December 31, 2006 (unaudited), 2005 (unaudited) and 2004**

|  | Members Equity   |  |          |
|--|--|--|----------|
|  | Allen<br>&<br>O Hara<br>Development<br>Company,<br>LLC | National<br>Development<br>Company,<br>LLC | Total    |
|  | (In thousands)   |  |          |
| Members Deficit, December 31, 2003 (unaudited) | \$ (66)  | \$ (65)                                    | \$ (131) |
| Distributions to members                       | (295)  | (295)                                      | (590)    |
| Net income                                     | 376  | 375  | 751      |
| <br>   |  |  |          |
| Members Equity, December 31, 2004              | 15   | 15   | 30       |
| Distributions to members (unaudited)           | (13)   | (13)                                       | (26)     |
| Net income (unaudited)                         | 2  | 2  | 4        |
| <br>   |  |  |          |
| Members Equity, December 31, 2005 (unaudited)  | 4  | 4  | 8        |
| Distributions to members (unaudited)           | (1)  |  | (1)      |
| Net loss (unaudited)                           |  | (1)  | (1)      |
| <br>   |  |  |          |
| Members Equity, December 31, 2006 (unaudited)  | \$ 3   | \$ 3                                       | \$ 6     |

*See accompanying notes to financial statements.*

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**NATIONAL DEVELOPMENT/ALLEN & O HARA CLARION, LLC**  
**STATEMENTS OF CASH FLOWS**  
**For the years ended December 31, 2006 (unaudited), 2005 (unaudited) and 2004**

|  | 2006   | 2005 | 2004   |
|--|--------|------|--------|
| Operating activities:  |        |      |        |
| Net income (loss)  | \$ (1) | \$ 4 | \$ 751 |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: |        |      |        |
| Changes in assets and liabilities  |        |      |        |
| Receivables  |        | 27   | 146    |
| Accounts payable and accrued expenses  |        | (1)  | (1)    |
| Deferred development fee   |        |      | (303)  |
| Net cash provided by (used in) operating activities                                      | (1)    | 30   | 593    |
| Financing activities:  |        |      |        |
| Distributions to members   | (1)    | (26) | (590)  |
| Net cash used in financing activities  | (1)    | (26) | (590)  |
| Net increase (decrease) in cash and cash equivalents                                     | (2)    | 4    | 3      |
| Cash, beginning of period  | 8      | 4    | 1      |
| Cash, end of period  | \$ 6   | \$ 8 | \$ 4   |

*See accompanying notes to financial statements.*

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**NATIONAL DEVELOPMENT/ ALLEN & O HARA CLARION, LLC**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the years ended December 31, 2006 (unaudited), 2005 (unaudited) and 2004**  
**(Dollars in thousands)**

**1. Ownership and operation of the company**

National Development/ A&O Clarion, LLC (the Company) was formed on March 7, 2003, as a Tennessee Limited Liability Company. The Company was formed for the sole purpose of serving as the developer and construction advisor for a project to build a student housing facility (the Project) on the campus of Clarion University in Clarion, Pennsylvania (the University). The facility is a garden style apartment complex with 656 beds in 176 units both furnished and unfurnished.

Under the terms of the Company's operating agreement, the Company is 50% owned by Allen & O Hara Development Company, LLC (AODC) and 50% owned by National Development Company, LLC (NDC). AODC serves as the Company's managing member. Additionally, NDC Builders, LLC serves as general contractor of the Project and is an affiliate of NDC.

The Operating Agreement stipulates the following:

Each member of the Company receives a pro-rata share of profits, losses, and distributions based on its proportional share of ownership in the Company as discussed above.

Neither member is obligated to restore any amount of the Company's deficit capital balance.

The managing member monitors the cash financial position and cash flow of the Company. If the managing member determines additional funds are needed, it may require the members to advance amounts to the Company up to \$50 in the aggregate to fund working capital needs as needed. If the members are called to advance funds, each member must contribute its pro-rata share of the amounts required and the advances will bear interest at the Prime Rate plus 3%.

Unanimous consent between the members is required to, among other things, dissolve, liquidate, merge, or consolidate the Company's assets; assign membership interests to another party; loan amounts to others; borrow funds; pledge Company assets as collateral; admit additional members; and enter into agreements with the University.

The Company executed a development consulting services agreement (the Agreement) with Clarion University Foundation, Inc. (the Owner), dated September 1, 2003 and commenced operations on that date. The Company received a total fee of \$904 for completing the responsibilities outlined in the Agreement. The fees were received in accordance with the Agreement and recognized as discussed in Note 2. The Company primarily provides development consulting services to the Owner in an agency capacity. The project was substantially complete in August of 2004.

**2. Summary of significant accounting policies**

***Basis of presentation and accounting***

The accompanying financial statements represent the assets and liabilities and operating results of National Development/ A&O Clarion, LLC and have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States (GAAP). Revenues are recognized when earned and expenses and costs are recognized when incurred.

***Balance sheet classification***

Assets to be realized and obligations to be paid in the twelve months following the respective balance sheet date are classified as current.



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**NATIONAL DEVELOPMENT/ ALLEN & O HARA CLARION, LLC**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the years ended December 31, 2006 (unaudited), 2005 (unaudited) and 2004**  
**(Dollars in thousands)**

***Unaudited financial information***

The financial information as of December 31, 2006 and 2005 and the years ended December 31, 2006 and 2005 is unaudited, but includes all adjustments, consisting only of normal recurring adjustments, that in the opinion of management are necessary for a fair presentation of the Company's financial position, results of operations, and cash flows for such period.

***Use of estimates***

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

***Revenue recognition***

The Company provides development consulting services in an agency capacity with third parties whereby the fee is determined based upon the total construction costs. These fees 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.

***Fair value of financial instruments***

The carrying amount of cash, accounts receivable, and accounts payable and accrued expenses approximate fair value because of the relatively short-term nature of these instruments.

***Federal income taxes***

No provision for income taxes has been recorded in the financial statements, as the members are required to report their share of the Company's earnings in their respective income tax returns.

**3. Related party transactions**

Initial organizational costs of the Company were incurred by an affiliate of the Company. Upon consummation of a development consulting services agreement and receipt of the related fees, those costs were reimbursed to the affiliated entity by the Owner from bond proceeds used to fund the Project.

AODC is the managing member of the Company. Employees of AODC incur travel and other out-of-pocket expenses in connection with completing certain responsibilities under development consulting services agreements. These expenses are paid by an affiliate of AODC. Under the terms of the Agreement, these expenses are reimbursable from project funds. Upon receipt of payment from project funds by the Owner, the Company reimburses the affiliate for the expenses incurred. There were no amounts reimbursed to the affiliate of AODC in 2006 and 2005. The amounts reimbursed to the affiliate of AODC totaled \$117 for the year ended December 31, 2004.

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**NATIONAL DEVELOPMENT/ ALLEN & O HARA CLARION, LLC**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the years ended December 31, 2006 (unaudited), 2005 (unaudited) and 2004**  
**(Dollars in thousands)**

**4. Concentration of credit risk**

The Company receives all its development consulting fees from the Owner. All receivables recorded by the Company are due from the Owner. In the event that the Owner becomes unable to meet its obligations, it could pose significant credit risks to the Company. However, all project funds for the owner to pay for development and construction costs are received from bond proceeds and are held in trust. The Trust Indenture, which is part of the closing documents for the bonds that finance the Project, governs how the project funds will be disbursed. Because of this, the Company does not believe there are any significant risks associated with its accounts receivable.

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Members of  
National Development/ Allen & O Hara Lock Haven, LLC  
Memphis, Tennessee

We have audited the accompanying statements of operations, members' equity, and cash flows of National Development/Allen & O Hara CUPA, LLC (the Company), a limited liability company, which is owned 50% by Allen & O Hara Development Company, LLC, for the year ended December 31, 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the results of operations and cash flows of National Development/ Allen & O Hara Lock Haven, LLC at December 31, 2004 in conformity with accounting principles generally accepted in the United States of America.

/s/ Deloitte & Touche LLP  
Memphis, Tennessee  
March 30, 2005

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**NATIONAL DEVELOPMENT/ALLEN & O HARA LOCK HAVEN, LLC  
BALANCE SHEETS  
December 31, 2006 (unaudited) and 2005 (unaudited)**

|  | <b>2006</b>           | <b>2005</b> |
|--|-----------------------|-------------|
|  | <b>(In thousands)</b> |             |
| <b>ASSETS</b>                            |                       |             |
| Current assets:                          |                       |             |
| Cash                                     | \$                    | \$ 1        |
| Total assets                             | \$                    | \$ 1        |
| <b>LIABILITIES &amp; MEMBERS DEFICIT</b> |                       |             |
| Current liabilities:                     |                       |             |
| Accounts payable and accrued expenses    | \$ 1                  | \$ 1        |
| Deferred development revenue             |                       |             |
| Total current liabilities                | 1                     | 1           |
| Commitments and contingencies            |                       |             |
| Members deficit                          | (1)                   |             |
| Total liabilities and members deficit    | \$                    | \$ 1        |

*See accompanying notes to financial statements.*

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**NATIONAL DEVELOPMENT/ ALLEN & O HARA LOCK HAVEN, LLC**  
**STATEMENTS OF OPERATIONS**  
**For the years ended December 31, 2006 (unaudited), 2005 (unaudited) and 2004**

|   | <b>2006</b>           | <b>2005</b> | <b>2004</b> |
|---|-----------------------|-------------|-------------|
|   | <b>(In thousands)</b> |             |             |
| Third-party development consulting services | \$                    | \$ 6        | \$ 351      |
| Operating expenses                          | 1                     | 2           | 1           |
| Net income (loss)                           | \$ (1)                | \$ 4        | \$ 350      |

*See accompanying notes to financial statements.*

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**NATIONAL DEVELOPMENT/ ALLEN & O HARA LOCK HAVEN, LLC**  
**STATEMENTS OF CHANGES IN MEMBERS EQUITY (DEFICIT)**  
**For the years ended December 31, 2006 (unaudited), 2005 (unaudited) and 2004**

|  | <b>Members Equity</b>  |  |              |
|--|--|--|--------------|
|  | <b>Allen<br/>&amp;<br/>O Hara<br/>Development<br/>Company,<br/>LLC</b> | <b>National<br/>Development<br/>Company,<br/>LLC</b> | <b>Total</b> |
|  | <b>(In thousands)</b>  |  |              |
| Members Deficit, December 31, 2003 (unaudited) | \$ (99)  | \$ (99)  | \$ (198)     |
| Distributions to members                       | (78)   | (78)   | (156)        |
| Net income                                     | 175  | 175  | 350          |
| <br>   |  |  |              |
| Members Deficit, December 31, 2004             | (2)  | (2)  | (4)          |
| Distributions to members (unaudited)           |  |  |              |
| Net income (unaudited)                         | 2  | 2  | 4            |
| <br>   |  |  |              |
| Members Equity, December 31, 2005 (unaudited)  |  |  |              |
| Distributions to members (unaudited)           |  |  |              |
| Net loss (unaudited)                           | (1)  |  | (1)          |
| <br>   |  |  |              |
| Members Deficit, December 31, 2006 (unaudited) | \$ (1)   | \$   | \$ (1)       |

*See accompanying notes to financial statements.*

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**NATIONAL DEVELOPMENT/ ALLEN & O HARA LOCK HAVEN, LLC**  
**STATEMENTS OF CASH FLOWS**  
**For the years ended December 31, 2006 (unaudited), 2005 (unaudited) and 2004**

|  | 2006   | 2005 | 2004   |
|--|--------|------|--------|
| Operating activities:  |        |      |        |
| Net income (loss)  | \$ (1) | \$ 4 | \$ 350 |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: |        |      |        |
| Changes in assets and liabilities  |        |      |        |
| Receivables  |        |      | 14     |
| Accounts payable and accrued expenses  |        |      | (1)    |
| Deferred development fee   |        | (5)  | (209)  |
| Net cash provided by (used in) operating activities                                      | (1)    | (1)  | 154    |
| Financing activities:  |        |      |        |
| Distributions to members   |        |      | (156)  |
| Net cash used in financing activities  |        |      | (156)  |
| Net decrease in cash and cash equivalents  | (1)    | (1)  | (2)    |
| Cash, beginning of period  | 1      | 2    | 4      |
| Cash, end of period  | \$     | \$ 1 | \$ 2   |

*See accompanying notes to financial statements.*

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**NATIONAL DEVELOPMENT/ ALLEN & O HARA LOCK HAVEN, LLC  
NOTES TO FINANCIAL STATEMENTS  
The years ended December 31, 2006 (unaudited), 2005 (unaudited) and 2004  
(Dollars in thousands)**

**1. Ownership and operation of the company**

National Development/ A&O Lock Haven, LLC (the Company) was formed on March 7, 2003 as a Tennessee Limited Liability Company. The Company was formed for the sole purpose of serving as the developer and construction advisor for a project to build a student housing facility (the Project) on the campus of the Lock Haven University in Lock Haven, Pennsylvania (the University). The facility is a garden style apartment complex with 408 beds in 108 units both furnished and unfurnished.

Under the terms of the Company's operating agreement, the Company is 50% owned by Allen & O Hara Development Company, LLC (AODC) and 50% owned by National Development Company, LLC (NDC). AODC serves as the Company's managing member. Additionally, NDC Builders, LLC serves as general contractor of the Project and is an affiliate of NDC.

The Operating Agreement stipulates the following:

Each member of the Company receives a pro-rata share of profits, losses, and distributions based on its proportional share of ownership in the Company as discussed above.

Neither member is obligated to restore any amount of the Company's deficit capital balance.

The managing member monitors the cash financial position and cash flow of the Company. If the managing member determines additional funds are needed, it may require the members to advance amounts to the Company up to \$50 in the aggregate to fund working capital needs as needed. If the members are called to advance funds, each member must contribute its pro-rata share of the amounts required and the advances will bear interest at the Prime Rate plus 3%.

Unanimous consent between the members is required to, among other things, dissolve, liquidate, merge, or consolidate the Company's assets; assign membership interests to another party; loan amounts to others; borrow funds; pledge Company assets as collateral; admit additional members; and enter into agreements with the University.

The Company executed a development consulting services agreement (the Agreement) with Lock Haven University Foundation, (the Owner), dated July 1, 2003 and commenced operations on that date. The Company will receive a total fee of \$533 for completing the responsibilities outlined in the Agreement. The fees are received in accordance with the Agreement and recognized as discussed in Note 2. The Company primarily provides development consulting services to the Owner in an agency capacity. The project was completed in August of 2004.

**2. Summary of significant accounting policies**

***Basis of presentation and accounting***

The accompanying financial statements represent the assets and liabilities and operating results of National Development/ A&O Lock Haven, LLC and have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States (GAAP). Revenues are recognized when earned and expenses and costs are recognized when incurred.

***Unaudited financial information***

The financial information as of December 31, 2006 and 2005 and for the years ended December 31, 2006 and 2005 is unaudited, but includes all adjustments, consisting only of normal recurring adjustments,



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**NATIONAL DEVELOPMENT/ ALLEN & O HARA LOCK HAVEN, LLC**  
**NOTES TO FINANCIAL STATEMENTS**  
**The years ended December 31, 2006 (unaudited), 2005 (unaudited) and 2004**  
**(Dollars in thousands)**

that in the opinion of management are necessary for a fair presentation of the Company's financial position, results of operations, and cash flows for such period.

***Balance sheet classification***

Assets to be realized and obligations to be paid in the twelve months following the respective balance sheet date are classified as current.

***Use of estimates***

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

***Revenue recognition***

The Company provides development consulting services in an agency capacity with third parties whereby the fee is determined based upon the total construction costs. These fees 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.

***Fair value of financial instruments***

The carrying amount of cash, accounts receivable, and accounts payable and accrued expenses approximate fair value because of the relatively short-term nature of these instruments.

***Federal income taxes***

No provision for income taxes has been recorded in the financial statements, as the members are required to report their share of the Company's earnings in their respective income tax returns.

**3. Related party transactions**

Initial organizational costs of the Company were incurred by an affiliate of the Company. Upon consummation of a development consulting services agreement and receipt of the related fees, those costs were reimbursed to the affiliated entity by the Owner from bond proceeds used to fund the Project.

AODC is the managing member of the Company. Employees of AODC incur travel and other out-of-pocket expenses in connection with completing certain responsibilities under development consulting services agreements. These expenses are paid by an affiliate of AODC. Under the terms of the Agreement, these expenses are reimbursable from project funds. Upon receipt of payment from project funds by the Owner, the Company reimburses the affiliate for the expenses incurred. There were no amounts reimbursed to the affiliates of AODC in 2006 and 2005. The amounts reimbursed to the affiliate of AODC totaled \$102 for the year ended December 31, 2004.

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**NATIONAL DEVELOPMENT/ ALLEN & O HARA LOCK HAVEN, LLC  
NOTES TO FINANCIAL STATEMENTS  
The years ended December 31, 2006 (unaudited), 2005 (unaudited) and 2004  
(Dollars in thousands)**

**4. Concentration of credit risk**

The Company receives all its development consulting fees from the Owner. All receivables recorded by the Company are due from the Owner. In the event that the Owner becomes unable to meet its obligations, it could pose significant credit risks to the Company. However, all project funds for the owner to pay for development and construction costs are received from bond proceeds and are held in trust. The Trust Indenture, which is part of the closing documents for the bonds that finance the Project, governs how the project funds will be disbursed. Because of this, the Company does not believe there are any significant risks associated with its accounts receivable.

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Member of  
Place Portfolio Lessee, LLC

We have audited the accompanying balance sheet of **Place Portfolio Lessee, LLC** as of December 31, 2006, and the related statements of operations, member's equity, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Place Portfolio Lessee, LLC as of December 31, 2006, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States.

Certified Public Accountants  
Atlanta, Georgia

March 8, 2007

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**PLACE PORTFOLIO LESSEE, LLC**  
**BALANCE SHEET**  
**December 31, 2006**

## ASSETS

|   |                  |
|---|------------------|
| Cash in bank  | \$ 1,243,414     |
| Accounts receivable, net of reserve for doubtful accounts | 157,525          |
| Related party receivables                                 | 387,606          |
| Property and equipment                                    | 11,284           |
| Prepaid expenses and other assets                         | 134,796          |
| Escrow deposits   | 451,779          |
| Investments in marketable securities                      | 5,000,000        |
| <br>  |                  |
| Total Assets  | <br>\$ 7,386,404 |

## LIABILITIES AND MEMBER S EQUITY

## LIABILITIES:

|                                       |               |
|---------------------------------------|---------------|
| Accounts payable and accrued expenses | \$ 1,003,066  |
| Security deposits                     | 21,218        |
| Prepaid rents                         | 1,006,415     |
| Real estate taxes payable             | 307,718       |
| <br>                                  |               |
| Total Liabilities                     | <br>2,338,417 |

## MEMBER S EQUITY:

|                                       |                  |
|---------------------------------------|------------------|
| Member s capital                      | 6,921,357        |
| Accumulated deficit                   | (1,873,370)      |
| <br>                                  |                  |
| Total Member s Equity                 | <br>5,047,987    |
| <br>                                  |                  |
| Total Liabilities and Member s Equity | <br>\$ 7,386,404 |

The accompanying notes are an integral part of these financial statements.

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**PLACE PORTFOLIO LESSEE, LLC**  
**STATEMENT OF OPERATIONS**  
**For The Year Ended December 31, 2006**

|                                      |                |
|--------------------------------------|----------------|
| Operating Revenues:                  |                |
| Student housing leasing revenue      | \$ 22,265,592  |
| Student housing other leasing income | 1,771,333      |
| Other revenues                       | 156,353        |
| <br>                                 |                |
| Total Operating Revenues             | 24,193,278     |
| <br>                                 |                |
| Operating Expenses:                  |                |
| Student housing leasing expenses     | 11,355,096     |
| Rent expense                         | 13,736,750     |
| Additional rent expense              | 274,945        |
| Management fees                      | 699,857        |
| <br>                                 |                |
| Total Operating Expenses             | 26,066,648     |
| <br>                                 |                |
| Net Loss                             | \$ (1,873,370) |

The accompanying notes are an integral part of these financial statements.

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**PLACE PORTFOLIO LESSEE, LLC**  
**STATEMENT OF MEMBER S EQUITY**  
**For The Year Ended December 31, 2006**

|                            | Member s<br>Capital | Accumulated<br>Deficit | Total<br>Member s<br>Equity |
|----------------------------|---------------------|------------------------|-----------------------------|
| Balance, January 1, 2006   | \$                  | \$                     | \$                          |
| Contributions              | 6,921,357           |                        | 6,921,357                   |
| Net loss                   |                     | (1,873,370)            | (1,873,370)                 |
| Balance, December 31, 2006 | \$ 6,921,357        | \$ (1,873,370)         | \$ 5,047,987                |

The accompanying notes are an integral part of these financial statements.

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**PLACE PORTFOLIO LESSEE, LLC**  
**STATEMENT OF CASH FLOWS**  
**For The Year Ended December 31, 2006**

**CASH FLOWS FROM OPERATING ACTIVITIES:**

|   |                |
|---|----------------|
| Net loss  | \$ (1,873,370) |
| Adjustments to reconcile net loss to net cash used by operating activities: |                |
| Change in operating assets and liabilities:                                 |                |
| Accounts receivable   | (157,525)      |
| Related party receivables   | (387,606)      |
| Prepaid expenses and other assets   | (134,796)      |
| Escrow deposits   | (451,779)      |
| Accounts payable and accrued expenses                                       | 1,310,784      |
| Security deposits payable   | 21,218         |
| Prepaid rents   | 1,006,415      |
| <br>Net Cash Used By Operating Activities                                   | <br>(666,659)  |

**CASH FLOWS FROM INVESTING ACTIVITIES:**

|   |                 |
|---|-----------------|
| Purchases of property and equipment       | (11,284)        |
| Purchases of marketable securities        | (5,000,000)     |
| <br>Net Cash Used By Investing Activities | <br>(5,011,284) |

**CASH FLOWS FROM FINANCING ACTIVITIES:**

|                        |           |
|------------------------|-----------|
| Member s contributions | 6,921,357 |
|------------------------|-----------|

**NET CHANGE IN CASH** 1,243,414

CASH, Beginning

CASH, Ending \$ 1,243,414

**SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION****NON-CASH TRANSACTIONS**

The member s contribution includes approximately \$920,000 of net current assets and current liabilities contributed to the Company.

The accompanying notes are an integral part of these financial statements.

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**PLACE PORTFOLIO LESSEE, LLC**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2006**

**1. NATURE OF OPERATIONS**

Place Portfolio Lessee, LLC (the Company) is a Georgia Limited Liability Company formed November 29, 2005. Place Properties, LP (Place) is the sole Member of the Company. The Company was formed to operate and manage 13 student housing properties that are being leased from, a third party. See Note 2 for information related to the sale-leaseback transaction that gave rise to the lease.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Sale-Leaseback of Properties**

Effective on January 6, 2006, Place and Place Mezz Borrower, LLC (Mezz) sold 13 student housing properties located in Alabama, Georgia, Kentucky, Missouri, South Carolina and Tennessee to Educational Realty Operating Partnership, LP (EROP) for consideration of \$195,000,000. Effective on the same day, the Company leased these properties back from EROP under a noncancelable five year lease that requires annual lease payments of \$13,736,750. Under the terms of the sale, EROP assumed all rights, titles and interests in land, buildings, improvements, equipment, machinery, furnishings, supplies, other tangible property, and all intangible property, excluding certain tradenames, associated with the 13 properties. Under the terms of the lease, the Company assumed responsibility for the day-to-day operations of the properties including, but not limited to, rights to all cash, receivables and rental income as well as responsibility for repairs and maintenance, insurance and real estate taxes. See Note 4 for additional information related to the terms of this lease.

As a part of this transaction, Place received units of EROP valued at \$500,000. Place and the Chief Executive Officer of Place (the Principals) have entered into an Agreement of Principles. This agreement provides that the Principals are jointly and severally liable, along with the Company, for any fraud, removal of personal property and other similar actions by the Company.

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ significantly from those estimates.

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**PLACE PORTFOLIO LESSEE, LLC**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2006**

**Revenue Recognition**

Student housing units are leased for one to twelve month terms. Income from leases that include periods of free rent is recognized at the beginning of the lease. Management believes the difference between this method and straight-lining over the term of the related lease, as required by generally accepted accounting principles is not material due to the short lease periods. Expense recoveries billed to tenants and any other fees or fines are recorded as student housing other leasing income when earned.

A reserve for doubtful accounts is calculated based on Place's past credit experience with tenants as the previous owner. At December 31, 2006, the Company wrote-off the majority of tenant receivables that had been outstanding for longer than 30 days, and the reserve for doubtful accounts totaled \$ 15,432.

**Cash in Bank**

Cash includes amounts held in bank deposit accounts which, at times, may exceed federally insured limits.

**Investments**

The investments consist of \$2 million of corporate bonds and \$3 million of municipal bonds. These bonds are pledged for the letter of credit described in Note 4. The bonds trade at par value and reprice every 28 to 35 days. The bonds paid 2.41% to 5.30% interest at December 31, 2006. The carrying value approximates fair value because of the short repricing period. The bonds mature at various dates from 2033 to 2039. The Company has classified these investments as available for sale.

**Escrow Deposits**

The Company is responsible for payment of property taxes and insurance in accordance with the lease agreement. The Company pays monthly deposits to the escrow account held by the Project Mortgagor.

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**PLACE PORTFOLIO LESSEE, LLC**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2006**

**Property and Equipment**

Under the terms of the lease, property and equipment purchases are the responsibility of EROP. The expenditures are initially paid out of the Company's operating cash and then reimbursed by EROP. Any property and equipment purchases not reimbursed are capitalized as leasehold improvements if they extend the useful life of the property and are expensed if they are for routine repairs and maintenance. The Company has \$312,851 due from EROP at December 31, 2006 related to capital expenditures. This is included in related party receivables on the balance sheet. The collectibility of this receivable is not assured and the Company has not recorded a reserve for uncollectibility.

Leasehold improvements will be depreciated using the straight-line method over the lesser of the asset's estimated economic life or the lease term. As of December 31, 2006, leasehold improvements totaled \$11,284. Depreciation of these items will not begin until January 1, 2007.

**Fair Value of Financial Instruments**

The fair value of cash, accounts receivable, prepaid expenses, escrow deposits, accounts payable, accrued expenses, and prepaid rent approximates book balances.

**Income Taxes**

The Company is taxed as a partnership under the Internal Revenue Code and a similar state statute. In lieu of income taxes, the sole member of the Company is taxed on the Company's taxable income or loss. Therefore, no provision or liability for Federal or state income taxes related to the Company is included in these financial statements. Temporary differences exist in reporting revenue and expenses for financial reporting purposes.

**3. RELATED PARTY TRANSACTIONS**

The Company does not have any employees, and is managed by Place. The Company pays Place a fee for property management services and reimburses Place for payroll expense for employees who work at the properties. The management fee is calculated at 3% of monthly gross collections and totaled approximately \$700,000 during 2006. The total amount of payroll that was reimbursed to Place during 2006 was approximately \$2,425,000. Approximately \$160,000 of this amount is in accrued expenses at December 31, 2006. There are occasional advances from Place to the Company to cover operating cash shortages, and excess operating cash in the Company accounts is transferred to Place. These advances and transfers occur on a regular basis and do not charge interest.

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**PLACE PORTFOLIO LESSEE, LLC**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2006**

The Company pays WebRoomz, LLC ( WebRoomz ), 100% owned by Place, for roommate matching services. The Company paid WebRoomz approximately \$107,000 in 2006.

**4. OPERATING LEASE**

As a result of a sale-leaseback transaction disclosed in Note 2, the Company leases 13 student housing properties from EROP. Under the term of the lease agreement, the Company must maintain a minimum net worth of \$1 million. As a part of the lease agreement, the Company is required to maintain a \$5 million letter of credit to assure the rent and additional rent payments to EROP.

The lease has a five year fixed term with the option of three successive five year renewal periods subject to certain conditions specified in the lease agreement. The lease requires monthly payments of \$1,144,729 (\$13,736,750 annually) during the initial term, and provides for lease payments to be adjusted by the Consumer Price Index at the beginning of each renewal period.

The following is a schedule of the future lease payments required under the lease as of December 31, 2006:

|   |                   |
|---|-------------------|
| Year Ending<br>December 31,             |                   |
| 2007                                    | \$ 13,736,750     |
| 2008                                    | 13,736,750        |
| 2009                                    | 13,736,750        |
| 2010                                    | 13,736,750        |
| <br>Total future minimum lease payments | <br>\$ 54,947,000 |

Under the terms of the lease, the Company also must pay to EROP Additional Rent equal to 41% of gross revenue that exceeds a specified Additional Rent Base amount for each year. Considering the properties are all student housing, the Additional Rent is based on revenue for the period of August 1<sup>st</sup> through the following July 31<sup>st</sup> to more closely reflect the school year. Additional rent due for the period from January 1, 2006 through July 31, 2006 was \$274,945. At December 31, 2006, no amount has been accrued for the 5-month period from August 1, 2006 through December 31, 2006, because it is not assured that the Company will exceed the Additional Rent Base for the 12 months ended July 31, 2007.

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**PLACE PORTFOLIO LESSEE,LLC**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2006**

The following is a schedule of the Additional Rent Base used to calculate Additional Rent due to EROP:

|                             |               |
|-----------------------------|---------------|
| Year Ending<br>December 31, |               |
| 2007                        | \$ 23,716,440 |
| 2008                        | \$ 23,953,605 |
| 2009                        | \$ 24,193,141 |
| 2010                        | \$ 24,435,072 |

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**INDEX TO EXHIBITS**

| <b>Exhibit<br/>Number</b> | <b>Description</b>   |
|---------------------------|--|
| 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 Amended and Restated Agreement of Limited Partnership of Education Realty Operating Partnership, LP. (Incorporated by reference to Exhibit 10.1 to the Company's Registration Statement on Form S-11 (File No. 333-119264), filed on September 24, 2004.)  |
| 10.2                      | Form of Amended and Restated Agreement of Limited Partnership of University Towers Operating Partnership, LP. (Incorporated by reference to Exhibit 10.2 to the Company's Registration Statement on Form S-11 (File No. 333-119264), filed on September 24, 2004.)   |
| 10.3(1)                   | Form of Education Realty Trust, Inc. 2004 Incentive Plan. (Incorporated by reference to Exhibit 10.3 to the Company's Amendment No. 4 to its Registration Statement on Form S-11 (File No. 333-1192364), filed on January 11, 2005.)   |
| 10.4                      | Form of Indemnification Agreement between Education Realty Trust, Inc. and its directors and officers. (Incorporated by reference to Exhibit 10.4 to the Company's Amendment No. 1 to its Registration Statement on Form S-11 (File No. 333-1192364), filed on November 4, 2004.)  |
| 10.5(1)                   | Employment Agreement between Education Realty Trust, Inc. and Paul O. Bower, dated as of December 6, 2004. (Incorporated by reference to Exhibit 10.5 to the Company's Amendment No. 2 to its Registration Statement on Form S-11 (File No. 333-1192364), filed on December 10, 2004.)   |
| 10.6(1)                   | Employment Agreement between Education Realty Trust, Inc. and Randall H. Brown, dated as of December 6, 2004. (Incorporated by reference to Exhibit 10.6 to the Company's Amendment No. 2 to its Registration Statement on Form S-11 (File No. 333-1192364), filed on December 10, 2004.)  |
| 10.7(1)                   |  |

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Employment Agreement between Education Realty Trust, Inc. and Craig L. Cardwell, dated as of December 6, 2004. (Incorporated by reference to Exhibit 10.7 to the Company's Amendment No. 2 to its Registration Statement on Form S-11 (File No. 333-1192364), filed on December 10, 2004.)

- 10.8 Contribution Agreement dated as of September 24, 2004, by and among University Towers Operating Partnership, LP, Allen & O'Hara, Inc., Paul O. Bower, Clyde C. Porter, Robert D. Bird, Thomas J. Hickey, Barbara S. Hays and Hays Enterprises III, Ltd. (Incorporated by reference to Exhibit 10.8 to the Company's Amendment No. 2 to its Registration Statement on Form S-11 (File No. 333-1192364), filed on December 10, 2004.)
- 10.9 Contribution Agreement dated as of September 20, 2004, by and between Melton E. Valentine, Jr. and University Towers Operating Partnership, LP. (Incorporated by reference to Exhibit 10.9 to the Company's Amendment No. 2 to its Registration Statement on Form S-11 (File No. 333-1192364), filed on December 10, 2004.)
- 10.10 Contribution Agreement dated September 20, 2004, by and among Allen & O'Hara Educational Properties, LLC, Allen & O'Hara, Inc., Thomas J. Hickey, Craig L. Cardwell, Randall H. Brown, William W. Harris, Wallace L. Wilcox and Education Realty Operating Partnership, LP. (Incorporated by reference to Exhibit 10.10 to the Company's Registration Statement on Form S-11 (File No. 333-119264), filed on September 24, 2004.)
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| <b>Exhibit<br/>Number</b> | <b>Description</b>   |
|---------------------------|--|
| 10.11                     | Agreement and Plan of Merger dated September 20, 2004 by and among C Station, L.L.C., Allen & O Hara, Inc., Paul O. Bower, Craig L. Cardwell, Student Management Associates, LLC, Thomas J. Hickey, Randall H. Brown, William W. Harris, Wallace L. Wilcox, EDR C Station, LLC and Education Realty Operating Partnership, LP. (Incorporated by reference to Exhibit 10.11 to the Company s Amendment No. 2 to its Registration Statement on Form S-11 (File No. 333-1192364), filed on December 10, 2004.)                              |
| 10.12                     | Agreement and Plan of Merger dated September 20, 2004, by and among Allen & O Hara Education Services, LLC, Allen & O Hara, Inc., Student Management Associates, LLC, Thomas J. Hickey, Craig L. Cardwell, Randall H. Brown, William W. Harris, Wallace L. Wilcox, Allen & O Hara Education Services, Inc., and Education Realty Operating Partnership, LP. (Incorporated by reference to Exhibit 10.12 to the Company s Amendment No. 2 to its Registration Statement on Form S-11 (File No. 333-1192364), filed on December 10, 2004.) |
| 10.13                     | Contract of Sale/Contribution made effective as of September 17, 2004, by and among JPI-CG Mezz LLC, JPI-MC Mezz LLC, JPI Genpar Realty LLC, JPI Investment Company, L.P. and Education Realty Operating Partnership, LP. (Incorporated by reference to Exhibit 10.13 to the Company s Amendment No. 2 to its Registration Statement on Form S-11 (File No. 333-1192364), filed on December 10, 2004.)   |
| 10.14                     | Contract of Sale made effective as of September 17, 2004, by and among Jefferson Commons Lawrence, L.P., Jefferson Commons Wabash, L.P. and Education Realty Operating Partnership, LP. (Incorporated by reference to Exhibit 10.14 to the Company s Amendment No. 2 to its Registration Statement on Form S-11 (File No. 333-1192364), filed on December 10, 2004.)   |
| 10.15                     | Contract of Sale/Contribution made effective as of September 17, 2004, by and among Jefferson Commons Tucson Phase II Limited Partnership, Jefferson Commons Columbia, L.P. and Education Realty Operating Partnership, LP. (Incorporated by reference to Exhibit 10.15 to the Company s Amendment No. 2 to its Registration Statement on Form S-11 (File No. 333-1192364), filed on December 10, 2004.)   |
| 10.16                     | Contribution Agreement dated September 23, 2004 by and among Allen & O Hara Educational Properties, LLC, FSPP Education I, L.L.C., FSPP Education II, L.L.C., Allen & O Hara, Inc., Thomas J. Hickey, Craig L. Cardwell, Randall H. Brown, William W. Harris, Wallace L. Wilcox and Education Realty Operating Partnership, LP. (Incorporated by reference to Exhibit 10.16 to the Company s Amendment No. 2 to its Registration Statement on Form S-11 (File No. 333-1192364), filed on December 10, 2004.)                             |
| 10.17                     | Form of Revolving Loan Agreement dated January 31, 2005, between Education Realty Operating Partnership, LP and JPI Multifamily Investments L.P. (Incorporated by reference to Exhibit 10.17 to the Company s Registration Statement on Form S-11 (File No. 333-119264), filed on September 24, 2004.)   |
| 10.18                     | Form of Collateral Assignment of Partnership Interest and Pledge Agreement between Education Realty Operating Partnership, LP and JPI Multifamily Investments L.P. (Incorporated by reference to Exhibit 10.18 to the Company s Registration Statement on Form S-11 (File No. 333-119264), filed on September 24, 2004.)   |

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- 10.19 Form of Secured Non-Recourse Revolving Note dated 2005, issued by JPI Multifamily Investments L.P. to Education Realty Operating Partnership, LP. (Incorporated by reference to Exhibit 10.19 to the Company's Registration Statement on Form S-11 (File No. 333-119264), filed on September 24, 2004.)
- 10.20 Purchase and Sale Agreement dated August 27, 2004 by and between The Gables, LLC and Education Realty Operating Partnership, LP. (Incorporated by reference to Exhibit 10.20 to the Company's Registration Statement on Form S-11 (File No. 333-119264), filed on September 24, 2004.)
- 10.21 Assignment and Assumption Agreement dated November 2, 2004, between Education Realty Operating Partnership, LP and Allen & O'Hara, Inc. related to Morgan Keegan & Company, Inc. financial advisory services agreement dated March 18, 2004. (Incorporated by reference to Exhibit 10.21 to the Company's Amendment No. 1 to its Registration Statement on Form S-11 (File No. 333-1192364), filed on November 4, 2004.)
- 10.22 Commitment Letter for Revolving Credit Facility by and among JP Morgan Chase Bank, UBS AG, Education Realty Operating Partnership, LP and the Registrant dated December 22, 2004. (Incorporated by reference to Exhibit 10.22 to the Company's Amendment No. 3 to its Registration Statement on Form S-11 (File No. 333-1192364), filed on January 3, 2005.)
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| <b>Exhibit<br/>Number</b> | <b>Description</b>  |
|---------------------------|---|
| 10.32(1)                  | Employment Agreement between Education Realty Trust, Inc. and William W. Harris, dated as of December 6, 2004. (Incorporated by reference to Exhibit 10.32 to the Company's Amendment No. 2 to its Registration Statement on Form S-11 (File No. 333-1192364), filed on December 10, 2004.)   |
| 10.33(1)                  | Employment Agreement between Education Realty Trust, Inc. and Thomas J. Hickey, dated as of December 6, 2004. (Incorporated by reference to Exhibit 10.33 to the Company's Amendment No. 2 to its Registration Statement on Form S-11 (File No. 333-1192364), filed on December 10, 2004.)  |
| 10.35                     | Credit Agreement, dated January 31, 2005, by and among Education Realty Operating Partnership, LP and certain of its subsidiaries, as Borrower, JPMorgan Chase Bank, N.A. and UBS Loan Finance LLC, as Lenders, JPMorgan Chase Bank, N.A., as Administrative Agent, and UBS Securities LLC, as Syndication Agent. (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 001-32417), filed on February 2, 2005.)  |
| 10.36(1)                  | Form of Restricted Stock Award Agreement (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed on August 17, 2006 and incorporated herein by reference).   |
| 10.37                     | Second Amendment to Contribution Agreement, dated January 6, 2006, by and between Place Properties, L.P., Place Mezz Borrower, LLC and Education Realty Operating Partnership, LP (Filed as Exhibit 10.1 to the Company's Current Report on Form 8-K dated January 12, 2006 and incorporated herein by reference).  |
| 10.38                     | Required Repair Escrow Agreement, dated as of January 1, 2006, by and between Place Properties, L.P., Place Mezz Borrower, LLC, Education Realty Operating Partnership, LP and Chicago Title Insurance Company (Filed as Exhibit 10.2 to the Company's Current Report on Form 8-K dated January 12, 2006 and incorporated herein by reference).   |
| 10.39                     | Lease Agreement, dated as of January 1, 2006, by and between Education Realty Operating Partnership, LP and Place Portfolio Lessee, LLC (Filed as Exhibit 10.3 to the Company's Current Report on Form 8-K dated January 12, 2006 and incorporated herein by reference).  |
| 10.40                     | Consent, Ratification, Assumption and Release Agreement made effective as of January 6, 2006, by and among Cape Place (DE), LLC, Martin Place (DE), LLC, Clayton Place (DE), LLC, Macon Place (DE), LLC, River Place (DE), LLC, Jacksonville Place (DE), LLC, Clemson Place (DE), LLC, Troy Place (DE), LLC, Murray Place (DE), LLC, EDR Lease Holdings, LLC, Cecil M. Philips, Place Properties, L.P., Education Realty Operating Partnership, LP, and LaSalle Bank, National Association, as Trustee (Filed as Exhibit 10.1 to the Company's Current Report on Form 8-K/A dated January 25, 2006 and incorporated herein by reference). |
| 10.41                     | Loan and Security Agreement dated as of December 3, 2004, between Cape Place (DE), LLC; Clayton Place (DE), LLC; Clemson Place (DE), LLC; Jacksonville Place (DE), LLC; Macon Place (DE), LLC; Martin Place (DE), LLC; Murray Place (DE), LLC; River Place (DE), LLC; and Troy Place (DE), LLC, collectively, as Borrower and Greenwich Capital Financial Products, Inc., as Lender (Filed as Exhibit 10.2 to the Company's Current Report on Form 8-K/A dated January 25, 2006 and incorporated herein by reference).  |

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- 10.42 Promissory Note (\$98,660,000), dated December 3, 2004, between Cape Place (DE), LLC, Clayton Place (DE), LLC, Clemson Place (DE), LLC, Jacksonville Place (DE), LLC, Macon Place (DE), LLC, Martin Place (DE), LLC, Murray Place (DE), LLC, River Place (DE), LLC, Troy Place (DE), LLC (collectively, the Borrower ) and Greenwich Capital Financial Products, Inc. (the Lender ) (Filed as Exhibit 10.3 to the Company s Current Report on Form 8-K/A dated January 25, 2006 and incorporated herein by reference).
- 10.43 Exceptions to Non-Recourse Guaranty (Multi State) entered into as of January 6, 2006, by Education Realty Operating Partnership, LP for the benefit of LaSalle Bank, National Association, as Trustee (Filed as Exhibit 10.4 to the Company s Current Report on Form 8-K/A dated January 25, 2006 and incorporated herein by reference).
- 10.44 Environmental Indemnity Agreement made as of January 6, 2006, by Cape Place (DE), LLC, Clayton Place (DE), LLC, Clemson Place (DE), LLC, Jacksonville Place (DE), LLC, Macon Place (DE), LLC, Martin Place (DE), LLC, Murray Place (DE), LLC, River Place (DE), LLC, Troy Place (DE), LLC, and EDR Lease Holdings, LLC and EDR Clemson Place Limited Partnership and Education Realty Operating Partnership, LP (collectively referred to as Indemnitor ) in favor of LaSalle Bank, National Association, as Trustee (Filed as Exhibit 10.5 to the Company s Current Report on Form 8-K/A dated January 25, 2006 and incorporated herein by reference).
- 10.45 Credit Agreement dated as of March 30, 2006 among Education Realty Operating Partnership, L.P., as borrower, the lenders party thereto and KeyBank, National Association as administrative agent (Filed as Exhibit 10.1 to the Company s Current Report on Form 8-K dated April 6, 2006 and incorporated herein by reference).
- 10.46 Amended and Restated Credit Agreement dated as of March 30, 2006 among Education Realty Operating Partnership, L.P., and certain of its subsidiaries as borrowers, the lenders party thereto and KeyBank, National Association as administrative agent (Filed as Exhibit 10.2 to the Company s Current Report on Form 8-K dated April 6, 2006 and incorporated herein by reference).
- 10.47(1) Incentive Compensation Plan for Executive Officers (filed as exhibit 10.1 to the Company s Current Report on Form 8-K dated May 30, 2006 and incorporated herein by reference).
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| <b>Exhibit<br/>Number</b> | <b>Description</b>   |
|---------------------------|--|
| 10.48 (1)                 | Employment Agreement between Education Realty Trust, Inc. and Thomas Trubiana, dated as of March 1, 2005 (Filed as Exhibit 10.1 to the Company's Current Report on Form 8-K dated January 4, 2007 and incorporated herein by reference). |
| 11                        | Statement Re: Computation of per share earnings (included within 10K)  |
| 14                        | Code of Ethics (Incorporated by reference to Exhibit 14 to the Company's Annual Report on Form 10-K for the year ended December 31, 2005).   |

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| <b>Exhibit<br/>Number</b> | <b>Description</b>  |
|---------------------------|---|
| 21.1                      | List of Subsidiaries of the Registrant.   |
| 23.1                      | Consent of Independent Registered Public Accounting Firm, Deloitte & Touche LLP.                      |
| 23.2                      | Consent of Independent Registered Public Accounting Firm, Windham Brannon, P.L.                       |
| 31.1                      | Certificate of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2                      | Certificate of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1                      | Certificate of Chief Executive Officer and Chief Financial Officer.                                   |
| (1)                       | Management contract or compensatory plan.   |