

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

Education Realty Trust, Inc.  
Form 10-K  
February 29, 2016  
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, 2015

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.

Education Realty Operating Partnership, LP

(Exact Name of Registrant as Specified in Its Charter)

Maryland

20-1352180

Delaware

20-1352332

(State or Other Jurisdiction of  
Incorporation or Organization)

(IRS Employer  
Identification No.)

999 South Shady Grove Road, Suite 600

38120

Memphis, Tennessee

(Address of Principal Executive Offices)

(Zip Code)

Registrant's Telephone Number, Including Area Code (901) 259-2500

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

Title of Each Class

Name Of Each Exchange On Which Registered

Common Stock, \$0.01 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.

Education Realty Trust, Inc. Yes  No

Education Realty Operating Partnership, LP 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.

Education Realty Trust, Inc. Yes  No

Education Realty Operating Partnership, LP 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 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Education Realty Trust, Inc. Yes  No

Education Realty Operating Partnership, LP Yes  No

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



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

Education Realty Trust, Inc.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

Education Realty Operating Partnership, LP

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Education Realty Trust, Inc.

Yes  No

Education Realty Operating Partnership, LP

Yes  No

As of June 30, 2015, the last business day of the registrant’s most recently completed second quarter, the aggregate market value of the registrant’s common stock held by non-affiliates of the registrant was approximately \$1.5 billion, based on the closing sales price of \$31.36 per share as reported on the New York Stock Exchange. (For purposes of this calculation all of the registrant’s directors and executive officers are deemed affiliates of the registrant.)

As of February 26, 2016, the registrant had 63,219,814 shares of common stock outstanding.

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## DOCUMENTS INCORPORATED BY REFERENCE

To the extent stated herein, the Registrant incorporates by reference into Part III of this annual report (the "Annual Report") on Form 10-K portions of its Definitive Proxy Statement on Schedule 14A for the 2016 Annual Meeting of Stockholders to be filed subsequently with the Securities and Exchange Commission (the "SEC").

## EXPLANATORY NOTE

This report combines the annual reports on Form 10-K for the year ended December 31, 2015 of Education Realty Trust, Inc. and Education Realty Operating Partnership, LP. Unless stated otherwise or the context otherwise requires, references to "EdR" mean only Education Realty Trust, Inc. a Maryland corporation, and references to "EROP" mean only Education Realty Operating Partnership, LP, a Delaware limited partnership. References to the "Trust," "we," "us," or "our" mean collectively EdR, EROP and those entities/subsidiaries owned or controlled by EdR and/or EROP. References to the "Operating Partnership" mean collectively EROP and those entities/subsidiaries owned or controlled by EROP. The following chart illustrates our corporate structure:

The general partner of EROP is Education Realty OP GP, Inc. (the "OP GP"), an entity that is indirectly wholly-owned by EdR. As of December 31, 2015, OP GP held an ownership interest in EROP of less than 1%. The limited partners of EROP are Education Realty OP Limited Partner Trust, a wholly-owned subsidiary of EdR, and other limited partners consisting of current and former members of management. The OP GP, as the sole general partner of EROP, has the responsibility and discretion in the management and control of the Operating Partnership, and the limited partners of EROP, in such capacity, have no authority to transact business for, or participate in the management activities of the Operating Partnership. Management operates EdR and the Operating Partnership as one business. The management of EdR consists of the same members as the management of the Operating Partnership.

The Trust is structured as an umbrella partnership real estate investment trust ("UPREIT") and EdR contributes all net proceeds from its various equity offerings to the Operating Partnership. In return for those contributions, EdR receives an equal number of partnership units of EROP (the "OP Units"). Contributions of properties to the Trust can be structured as tax-deferred transactions through the issuance of OP Units. Holders of OP Units may tender their OP Units for redemption by the Operating Partnership in exchange for cash equal to the market price of EdR's common stock at the time of redemption or, at EdR's

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option, for shares of EdR's common stock. Pursuant to the partnership agreement of EROP, the number of shares to be issued upon the redemption of OP Units is equal to the number of OP Units being redeemed. Additionally, for every one share of common stock offered and sold by EdR for cash, EdR must contribute the net proceeds to EROP and, in return, EROP will issue one OP Unit to EdR.

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

- enhances investors' understanding of the Trust by enabling investors to view the business of EdR and the Operating Partnership as a whole in the same manner as management views and operates the business;
- eliminates duplicative disclosure and provides a more streamlined and readable presentation since a substantial portion of the disclosure applies to both EdR and the Operating Partnership; and
- creates time and cost efficiencies through the preparation of one combined report instead of two separate reports.

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

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

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

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Trust on a consolidated basis and how management operates the Trust.

This Annual Report also includes separate "Item 9A - Controls and Procedures" sections and separate Exhibits 31 and 32 certifications for each of the Trust and the Operating Partnership in order to establish that the requisite certifications have been made and that EdR and the Operating Partnership are compliant with Rule 13a-15 or Rule 15d-15 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and 18 U.S.C. §1350.

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## FORWARD-LOOKING STATEMENTS

Our disclosure and analysis in this Annual Report on Form 10-K and the documents that are or will be incorporated by reference herein contain “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Exchange Act. Forward-looking statements provide our current expectations or forecasts of future events and are not statements of historical fact. These forward-looking statements include information about possible or assumed future events, including, among other things, discussion and analysis of our future financial condition, results of operations and funds from operations, our strategic plans and objectives, cost management, occupancy and leasing rates and trends, liquidity and ability to refinance our indebtedness as it matures, anticipated capital expenditures (and access to capital) required to complete projects, amounts of anticipated cash distributions to our stockholders in the future and other matters. 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/or could cause actual results to differ materially from those expressed or forecast in the forward-looking statements.

Forward-looking statements involve inherent uncertainty and may ultimately prove to be incorrect or false. You are cautioned not to place undue reliance on forward-looking statements. Except as otherwise may be required by law, we undertake no obligation to update or revise forward-looking statements to reflect changed assumptions, the occurrence of unanticipated events or actual operating results. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including, but not limited to:

- risks and uncertainties related to the national and local economies and the real estate industry in general and in our specific markets (including university enrollment conditions and admission policies, and our relationship with these universities);
- volatility in the capital markets;
- rising interest and insurance rates;
- competition from university-owned or other private collegiate housing and our inability to obtain new residents on favorable terms, or at all, upon the expiration of existing leases;
- availability and terms of capital and financing, both to fund our operations and to refinance our indebtedness as it matures;
- legislative or regulatory changes, including changes to laws governing collegiate housing, construction and real estate investment trusts;
- our possible failure to qualify as a real estate investment trust and the risk of changes in laws affecting real estate investment trusts;
- our dependence upon key personnel whose continued service is not guaranteed;
- our ability to identify, hire and retain highly qualified executives in the future;
- availability of appropriate acquisition and development targets;
- failure to integrate acquisitions successfully;
- the financial condition and liquidity of, or disputes with, our joint venture and development partners;
- impact of ad valorem, property and income taxes;
- changes in U.S. generally accepted accounting principles (“GAAP”);
- construction delays, increasing construction costs or construction costs that exceed estimates;
- changes in our credit ratings;
- potential liability for uninsured losses and environmental liabilities;
- lease-up risks; and
- the potential need to fund improvements or other capital expenditures out of operating cash flow.

This list of risks and uncertainties, however, is only a summary of some of the most important factors and is not intended to be exhaustive. You should carefully review the risks described under “Item 1A. — Risk Factors” below. New factors may also emerge from time to time that could materially and adversely affect us.

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EDUCATION REALTY TRUST, INC.  
 EDUCATION REALTY OPERATING PARTNERSHIP, LP  
 FISCAL 2015 FORM 10-K

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## PART I

### Item 1. Business.

#### Our Company

Education Realty Trust, Inc. ("EdR") is a self-managed and self-advised company incorporated in the state of Maryland in July 2004 to develop, acquire, own and manage collegiate housing communities located near university campuses. We were formed to continue and expand upon the collegiate housing business of Allen & O'Hara, Inc., a company with over 40 years of experience as an owner, manager and developer of collegiate housing. We selectively develop collegiate housing communities for our own account and also provide third-party management services as well as third-party development consulting services on collegiate housing development projects for universities and other third parties. As of December 31, 2015, we owned 59 collegiate housing communities located in 21 states containing 30,400 beds in 11,679 apartment units on or near 37 university campuses. As of December 31, 2015, we provided third-party management services for 21 collegiate housing communities located in 11 states containing 11,542 beds in 4,093 apartment units on or near 17 university campuses.

EdR has elected to be taxed as a real estate investment trust ("REIT") for federal income tax purposes. All of our assets are held by, and we conduct substantially all of our activities through, Education Realty Operating Partnership, LP ("EROP" and collectively with its consolidated subsidiaries, the "Operating Partnership") and its consolidated subsidiaries, EDR Management Inc. (our "Management Company") and EDR Development LLC (our "Development Company"). The majority of our operating expenses are borne by the Operating Partnership or our communities, as the case may be.

Education Realty OP GP, Inc. (the "OP GP"), an entity that is indirectly wholly-owned by EdR, is the sole general partner of the Operating Partnership. As a result, the Board of Directors of EdR (the "Board") effectively directs all of the Operating Partnership's affairs. EdR indirectly owns approximately 99.6% of the outstanding partnership units (the "OP Units") of EROP and approximately 0.4% of the OP Units are held by the former owners of our initial properties and assets, including current and former members of our management team and former members of the Board.

One of our consolidated subsidiaries, University Towers Operating Partnership, LP (the "University Towers Partnership"), holds, owns and operates our University Towers property located in Raleigh, North Carolina. We own 72.7% of the partnership units in the University Towers Partnership, and the remaining 27.3% of the partnership units in the University Towers Partnership are held by the former owners of our initial properties and assets, including a former member of the Board.

#### 2015 Highlights

#### Financing Transactions

During the year, we repaid a significant amount of variable rate construction debt and fixed rate mortgage debt. During the first quarter of 2015, we prepaid in full variable rate construction debt with an outstanding principal balance of \$33.3 million related to the development of Roosevelt Point. The effective interest rate at the repayment date was 2.44%. During the second quarter of 2015, we prepaid in full variable rate construction debt with an outstanding principal balance of \$32.4 million related to The Varsity. The effective interest rate at the repayment date was 1.78%. During the fourth quarter of 2015, we prepaid the following mortgage notes: a \$15.8 million, seven-year note under the Master Secured Credit Facility. The debt had a fixed rate of 5.45% and was due to mature on January 1, 2017. In connection with this repayment, we incurred a prepayment penalty of \$0.4 million; and

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fixed-rate mortgage debt of \$23.7 million. The interest rate was equal to 4.16% and the mortgage debt was scheduled to mature on April 1, 2016.

We completed a follow-on equity offering in November 2015, raising approximately \$270.1 million in net proceeds, which were used to pay off in full the outstanding balance on our revolving credit facility, provide financing for development activity and for general corporate purposes. As of December 31, 2015, we had no amounts outstanding on our revolving credit facility and availability of \$500.0 million.

We also issued 0.7 million shares of our common stock for net proceeds of approximately \$26.7 million during 2015 under our ATM program.

## Acquisition, Disposition and Development Activities

During 2015, we completed the following collegiate housing property acquisitions:

Name	Primary University Served	Acquisition Date	# of Beds	# of Units	Contract Price (in thousands)
The Commons on Bridge	University of Tennessee Knoxville, Tennessee	June 2015	150	51	\$9,700
The Province at Boulder	University of Colorado Boulder, Colorado	Sept 2015	317	84	\$48,800

In 2015, we sold one property for a sales price of \$12.9 million resulting in total proceeds of approximately \$12.3 million after customary closing costs and recognized a \$2.8 million gain on this disposition.

In August 2015, we delivered six new communities, on-time and on-budget in the aggregate, for total costs of \$207.7 million. These include five owned and consolidated communities at the University of Kentucky, the University of Connecticut and the University of Louisville, and one unconsolidated joint venture at the University of Georgia.

We currently have eight active development projects that we are developing for our ownership with our share of aggregate development costs of \$403.8 million. As of December 31, 2015, \$96.8 million of the anticipated costs had been incurred and funded.

## Distributions

During 2015, we declared quarterly distributions aggregating \$1.46 per share of EdR's common stock. At the same time, the Operating Partnership paid an equivalent amount per partnership unit to holders of OP Units.

## REIT Status and Taxable REIT Subsidiaries

We have elected to be taxed as a REIT for federal income tax purposes. With the exception of income from our taxable REIT subsidiaries (a "TRS" or collectively, the "TRSs"), income earned by the REIT is generally not subject to income taxes. In order to qualify as a REIT, a specified percentage of our gross income generally must be derived from real property sources, which would exclude our income from providing development and management services to third parties as well as our income from certain services afforded to our residents. 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 being treated as a TRS. Our Management Company is wholly-owned and controlled by the 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 income earned by our Development Company are deemed to be owned and earned by our Management Company.

## Business and Growth Strategy

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

Our business has three reportable segments that are identified by their distinct customer base and services provided: collegiate housing leasing, development consulting services and management services. For a discussion of revenues,

profit and loss and total assets by segment see “Item 7 — Management’s Discussion and Analysis of Financial Condition and Results of Operations” and Note 13, “Segments” to the accompanying consolidated financial statements.

## Acquisition and Development Strategy

### Acquisitions

We seek to acquire high-quality, well-located communities with modern floor plans and amenities. Our ideal acquisition targets generally are located in markets that have stable or increasing collegiate populations and high barriers to entry. We also seek to acquire investments in collegiate housing communities that possess sound market fundamentals but are under-performing and would benefit from re-positioning, renovation and/or improved property management. We consider the following property and market factors to identify potential property acquisitions:

- university and campus reputation;
- competitive admissions criteria;
- limited number of on-campus beds and limited plans for expansion;
- significant out-of-state enrollment;
- distance of property from campus;
- property unit mix;
- competition;
- past operating performance;
- potential for improved management;
- ownership and capital structure;
- presence of desired amenities;
- maintenance and condition of the property;
- access to a university-sponsored or public transportation line depending on location; and
- parking availability.

Conversely, subject to appropriate market conditions, we may dispose of certain collegiate housing communities. We continually assess all of our communities, the markets in which they are located and the colleges and universities they serve, to determine if any dispositions are necessary or appropriate.

### Developments

We develop collegiate housing communities for our ownership. The On-Campus Equity Plan (the "ONE Plan<sup>SM</sup>") is our private equity program, which allows universities to use our equity and financial stability to develop and revitalize campus housing while preserving their credit capacity for other campus projects. The ONE Plan<sup>SM</sup> offers one service provider and one equity source to universities seeking to modernize on-campus housing to meet the needs of today's students. We have completed the following ONE Plan<sup>SM</sup> developments, which are owned and managed pursuant to long-term ground leases:

- University Village on Colvin serving Syracuse University in Syracuse, New York;
- Campus West also serving Syracuse University in Syracuse, New York;
- GrandMarc at Westberry Place serving Texas Christian University in Fort Worth, Texas; and
- 2400 Nueces serving the University of Texas at Austin in Austin, Texas.

In addition, in December 2011, we were selected by the University of Kentucky ("UK") to develop, own and manage a multi-phase project aimed at revitalizing UK's on-campus housing, which could potentially include the revitalization and replacement of UK's campus housing properties to more than 9,000 beds over five to seven years utilizing the ONE Plan<sup>SM</sup>. As of December 31, 2015, we had completed the following developments at UK under the ONE Plan<sup>SM</sup>:

- Lymon T. Johnson Hall (formerly Central Hall I) and Central Hall II, which opened in August 2013;

♣Haggin Hall, Champions Court I and II and Woodland Glen I & II, all of which opened in August 2014; and  
♣Woodland Glen III, IV & V, all of which opened in August 2015.

Construction on Limestone Park I & II, the 1,141-bed freshman live-learn community, expected to be delivered in the summer of 2016, is progressing as planned. The 2017 deliveries, which include the construction of 1,117 beds to be known as University Flats and Lewis Hall is scheduled to be completed in the summer of 2017. The UK developments are owned and managed pursuant to long-term leases or ground leases.

We believe the Trust will continue to enter into more partnerships under the ONE Plan<sup>SM</sup> due to our proven on-campus development and management experience, size, transparency and financial strength. We believe the ONE Plan<sup>SM</sup> allows us to

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provide the perfect opportunity to universities to develop new housing and boost enrollment with a plan tailored to specific needs while simultaneously preserving the university's credit capacity.

In total, we currently have eight active owned developments that we expect to deliver in 2016 and 2017, including a wholly-owned development at the University of Mississippi, four ONE Plan<sup>SM</sup> developments, three of which are located at UK and one of which is located at Boise State University, and joint ventures at Virginia Polytechnic Institute and State University ("Virginia Tech"), Michigan State University and Texas State University.

During February 2016, Cornell University and EdR executed a pre-closing agreement and design and site planning are under way toward an expected fall 2016 groundbreaking and commencement of construction for an approximately 850 bed \$80.0 million on-campus housing community targeted for summer 2018 delivery.

#### Joint Ventures

Starting in 2011, we began entering into joint venture agreements to develop, own and manage collegiate housing communities. In addition to the joint ventures under development discussed above, we previously developed and currently manage properties under joint venture arrangements near the University of Alabama, which opened in August 2012; Arizona State University-Downtown Phoenix and the University of Mississippi, both of which opened in August 2013; Duke University, which opened in August 2014; and the University of Louisville, which opened in August 2015. We subsequently acquired the minority interests in the collegiate housing communities at the University of Alabama, the University of Mississippi and Arizona State University - Downtown Phoenix (in February 2016). We are now a 100% owner of those properties. We continue to hold a majority ownership in the joint ventures at Duke University and the University of Louisville.

In some cases, we hold a non-majority ownership interest in properties and earn a fee for the management of the properties. In December 2012, we invested in a joint venture with GEM Realty Capital to jointly develop and own new off-campus collegiate housing near the University of Minnesota. We are a 50% owner of the property, which opened in August 2014. We entered into a second joint venture with GEM Realty Capital to jointly develop and own new off-campus collegiate housing near the University of Georgia. We are a 50% owner of the property, which opened in August 2015. We also manage these communities, but we do not consolidate these two joint ventures in our financial statements.

Our joint venture strategy enables us to source and take advantage of opportunities not otherwise available to us and to accretively diversify our portfolio by expanding into geographic markets where we are not currently present with lower capital requirements than if we acquired the properties after completion. We expect to continue pursuing joint venture arrangements in the future.

#### Operating Strategy

We seek to maximize net operating income of the collegiate housing communities that we own and manage through the following operational strategies.

**Maximize revenue.** We have developed and implemented proactive marketing practices to enhance the visibility of our collegiate housing communities and to optimize our revenue. We 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. This plan is closely monitored and adjusted, if necessary, throughout the leasing period using our PILOT leasing management system, giving us the flexibility in finding the optimal mix of rate and occupancy. We intend to continue to market our properties to students, parents and universities by emphasizing collegiate-oriented living areas, state-of-the-art technology and infrastructure, a wide variety of amenities and services and close proximity to university campuses.



Controlling costs. 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 consistent cost control throughout our communities;
- operating with flat property-level management structures, minimizing multiple layers of management; and
- negotiating service-level pricing arrangements with national and regional vendors and requiring corporate-level approval of service agreements for each community.

Maintain the physical assets in top condition. We strive to maintain our assets in the best condition through an intense property and asset management focus. We conduct periodic preventive maintenance, quarterly inspection of units, perform annual turn and ongoing capital investments to protect and grow existing property values.

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

Develop and retain personnel. We staff each collegiate 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 residents, enhancing their college experiences. We have developed programs and procedures to train each team of on-site employees and to provide them with 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 key on-site personnel.

### Third-Party Services Strategy

In addition to developing communities for our ownership and managing our owned collegiate housing communities, we seek to provide development and management consulting services for universities and other third-party owners who rely upon the private sector for assistance in developing and managing their collegiate 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 collegiate housing communities. We perform third-party services for collegiate housing communities serving some of the nation's most prominent systems of higher education, including the University of North Carolina, 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 Development Company and our Management Company. Unlike the income earned from our properties owned by the Trust, the income earned by our Development Company and our Management Company is subject to regular federal income tax and state and local income taxes where applicable.

### Third-party development consulting services

We provide third-party development consulting services primarily to universities seeking to modernize their on-campus collegiate housing communities but also to other third-party investors. We typically are notified that we have been awarded development consulting services projects on the basis of a competitive award process and thereafter begin work on the project. In the case of tax exempt bond-financed projects, definitive contracts are not executed until bond closing. 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 of layout, purchase and installation of furniture;
- pre-opening marketing to potential residents; and
- obtaining final approvals of construction.

By providing these services, we are able to observe emerging trends in collegiate housing development and market acceptance of unit and community amenities. Our development consulting services also provide us with opportunities to obtain additional third-party property management contracts. Of the 24 clients for whom we have provided development-consulting services since 2000, we currently provide third-party management services under contracts with 11 of those clients while the 13 remaining clients alternatively elected to manage the communities in-house under their existing infrastructure. In 2015, our fees from third-party development consulting services represented 0.9% of our revenues, excluding operating expense reimbursements.

Since 2000, we have provided third-party development consulting services to clients for projects totaling over \$1.5 billion in value. We are currently providing third-party development services pursuant to signed definitive contracts with projects under construction at University of California, Berkeley - Bowles Hall. We have also entered into predevelopment agreements for

third-party developments at East Stroudsburg University - Pennsylvania Ph II, Texas A&M - Commerce and Shepherd University, and expect to begin development during the next few months.

### Third-party management services

We provide third-party management services for collegiate 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. These services are comparable to the services that we provide for our owned portfolio. We typically provide these services pursuant to multi-year management agreements. These agreements usually have an initial term of two to five years with renewal options of similar terms. We believe that providing these services allows us to leverage our existing management expertise and infrastructure. For the year ended December 31, 2015, our fees from third-party management services represented 1.5% of our revenue, excluding operating expense reimbursements. As of December 31, 2015, we provided third-party management services for 21 collegiate housing communities containing 11,542 beds in 4,093 apartment units on or near 17 university campuses located in 11 states.

### Our Operations

We staff each of our owned and managed collegiate housing communities with a full-service property management team. We typically staff each property with one community manager, a marketing/leasing manager, a resident services manager, a maintenance supervisor, one on-site resident community assistant for each 75-100 residents and general office and maintenance 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 residents, enhancing the residents' 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 corporate-based support for each essential operating area, including lease administration, sales/marketing, community and university relations, student life administration, maintenance, 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 Vice President of Client Relations designs and directs our residence life program. Our 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 residents through constructive programs, activities and listening to resident interests and concerns. Our on-site leadership selects residents to serve as community assistants who meet criteria established by our Vice President of Client Relations.

#### Marketing

We begin our annual marketing campaign by thoroughly segmenting the student population attending each of the primary universities where our collegiate housing communities are located, and compiling market surveys of comparable collegiate

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apartment properties. With this information, 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 segments of the market in which students are not eligible to live off-campus.

We typically begin our renewal campaign in October of each year. Signage, social networking, 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 its 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, web-based advertising and social networking media. Our professional leasing and marketing 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 collegiate 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 mid-August of each year and runs for approximately 11.5 months, ending July 31 or early August of each year to coincide with each university's fall academic term. The primary exception to our standard lease term is our University Towers, University Village on Colvin and the UK communities, 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 collegiate housing community. With the exception of our collegiate housing near the University of Connecticut and two communities near the University of Virginia which serve a variety of resident types and rents by the unit, all leases are for a bed in a private or shared bedroom, with rights to share common areas within the unit and throughout the community. This "individual lease" is a strong selling attraction as it limits a student's liability to the rental for one bed or bedroom instead of burdening the student with shared liability for the entire unit rental amount.

We lease our units by floor plan type using PILOT, our property leasing/marketing system, to maximize full leasing of entire units and avoid spotty vacancies, particularly in our four-bedroom units. We offer roommate-matching services to facilitate full occupancy. We develop waiting lists and monitor popular floor plans that fill to capacity early in the leasing season.

Unlike conventional apartment communities that have monthly move-outs and renewals, our collegiate housing community occupancies remain relatively stable throughout the academic year, but must be entirely re-leased at the beginning of each academic year. 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 October 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 installments throughout the lease term, with the first installment due on July 15 of that year. 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 of each year. We replace contracted residents who fail to pay the first installment with people 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 collegiate 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 collegiate 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 used by universities and to be featured in web-based collegiate housing listings wherever permitted by the institution and incorporate these initiatives into our marketing efforts. Our community managers make scheduled personal visits to academic departments at the universities to further our community exposure at this level.

In addition to our university relationships, our management team has developed long-standing relationships with developers, owners and brokers of collegiate 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 collegiate housing communities, we also develop strategic relationships with equity investors in order to pursue acquisitions through joint venture arrangements.

## Competition

### Competition from universities

We typically compete for residents with the owners of on-campus collegiate housing, which is generally owned by educational institutions or charitable foundations. Educational institutions generally do not have to pay real estate taxes and may be able 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 collegiate housing also include its physical proximity to the university campus and captive student body. Moreover, 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 collegiate housing offers freedom from restrictions, such as quiet hours or gender visitation limitations, and is especially appealing to upperclassmen who are transitioning toward greater independence.

### Competition from private owners

We compete with several regional and national owner-operators of off-campus collegiate housing, including two publicly-traded competitors, American Campus Communities, Inc. (NYSE: ACC) and Campus Crest Communities, Inc. (NYSE: CCG). We also compete with privately held developers, other real estate firms and smaller local owner-operators in a number of the markets in which we operate. Currently, the collegiate housing 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 into the collegiate housing business. The entry of one or more of these companies could increase competition for residents and for the acquisition, management and development of collegiate housing properties. We believe the main competitive factors in our industry include proximity to campus, amenities, rental rates and service reputation. Our portfolio has strong characteristics such as close proximity to campus (median distance is 0.1 miles), extensive amenities, bed/bath parity, extensive resident's life programming, on-site professional management and relatively new communities (average age of seven years). Our rental rates align with these characteristics and the market we serve, although our rates may be higher than individual competitor's.

## Environmental Matters

As a current or prior owner, manager and developer of real estate, we are subject to various federal, state and local environmental laws, regulations and ordinances and also could be liable to third parties resulting from environmental contamination or noncompliance at our properties. 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. 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. These and other risks related to environmental matters are described in more detail in “Item 1A. — Risk Factors” below.

#### Employees

As of December 31, 2015, we had approximately 1,237 employees, including:

- 1,100 on-site employees, including 358 community assistants;
- 35 people in our property management services department;

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30 people in our development consulting services and construction departments; and  
72 executive, corporate administration and financial personnel.

#### Available Information

We file periodic and current reports, proxy statements and other information with the SEC. All of our filings made with the SEC may be copied and 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 we do. The website address of the SEC is <http://www.sec.gov>.

Additionally, copies of our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, annual proxy statements and any amendments to the aforementioned filings, are available on our website, [www.EdRTrust.com](http://www.EdRTrust.com), free of charge as soon as reasonably practicable after we electronically file such reports or amendments with, or furnishes them to, the SEC. The filings can be found in the SEC filings section of our website under the Investor Relations heading. Our website also contains its Corporate Governance Guidelines, Code of Business Conduct and Ethics and the charters of the committees of the Board. These items can be found in the Corporate Governance section of the Investor Relations section of our website. Reference to our website does not constitute incorporation by reference of the information contained on the website and should not be considered part of this Annual Report on Form 10-K. All of the aforementioned materials may also be obtained free of charge by contacting the Investor Relations Department at Education Realty Trust, Inc., 999 South Shady Grove Road, Suite 600, Memphis, Tennessee 38120.

#### Item 1A. Risk Factors

##### Risks Related to Our Properties, Our Business and 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 performance and 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 collegiate housing units, increased competition or reduction in demand for collegiate housing;
- inability to collect rent from residents;
- the need for capital expenditures at our communities;
- vacancies or our inability to lease beds on favorable terms;
- inability to finance property development and acquisitions 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;
- decreases in student enrollment at particular colleges and universities;
- changes in university policies related to admissions;
- national, regional and local economic conditions; and

rising interest rates.

Our results of operations may be sensitive to changes in overall economic conditions that impact resident leasing practices.

Our results of operations may be sensitive to changes in overall economic conditions that impact resident leasing practices. A continuation of ongoing adverse economic conditions affecting disposable resident income, such as employment levels, business conditions, interest rates, tax rates, fuel and energy costs and other matters, could reduce overall resident leasing or cause residents to shift their leasing practices. At this time, it is difficult to determine the breadth and duration of the economic

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and financial market problems and the many ways in which they may affect our residents and our business in general. A general reduction in the level of resident leasing could adversely affect our growth and profitability.

We own, directly or indirectly, interests in collegiate housing communities located near major universities in the United States. Accordingly, we are dependent upon the levels of student enrollment and the admission policies of the respective universities, which attract a significant portion of our leasing base. As a result of the overall market quality deterioration, many students may be unable to obtain student loans on favorable terms. If student loans are not available or their costs are prohibitively high, enrollment numbers for universities may decrease. The demand for, occupancy rates at, rental income from and value of our properties would be adversely affected if student enrollment levels become stagnant or decrease in the current environment. Accordingly, a continuation or further worsening of these difficult financial and macroeconomic conditions could have a significant adverse effect on our cash flows, profitability and results of operations.

Our results of operations are subject to the following risks inherent in the collegiate housing industry: leasing cycles, concentrated lease-up period, seasonal cash flows and increased risk of student defaults during the summer months of 11.5 month leases.

We generally lease our properties under 11.5 month leases, but we may also lease for terms of nine months or less. Furthermore, all of our properties must be entirely re-leased each year, exposing us to increased leasing risk. We may not be able to re-lease the property on similar terms, if we are able to re-lease the property at all. The terms of renewal or re-lease (including the cost of required renovations) may be less favorable to us than the prior lease. If we are unable to re-lease all or a substantial portion of our properties, or if the rental rates upon such re-leasing are significantly lower than expected rates, our cash flow from operations and our ability to make distributions to stockholders and service indebtedness could be adversely affected.

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. Collegiate housing communities are typically leased during a leasing season that begins in October 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 residents. Other than revenue generated by in-place leases for returning residents, 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. 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 11.5 month leases may be more likely to default on 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.

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 residents or for mailing lists of prospective residents 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-residents 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.

It is also important that the universities from which our communities draw residents maintain good reputations and are able to attract the desired number of incoming students. Any degradation in a university's reputation could inhibit its ability to attract students and reduce the demand for our communities.

We face significant competition from university-owned collegiate housing and from other private collegiate 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 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 collegiate 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 collegiate housing in a number of markets as well as with smaller local owner-operators. There are a number of purpose-built collegiate housing properties that compete directly with us located near or in the same general vicinity of many of our collegiate housing communities. Such competing collegiate housing communities may be newer than our collegiate 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 collegiate 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 residents and for the acquisition, development and management of other collegiate 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 predevelopment and other costs in the expectation that the development consulting services contract will be executed. These costs could range up to \$2.0 million or more per project 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 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. 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.

Our contractual obligations arising under third-party development consulting agreements expose us to risks related to the total project cost and on-time completion of the project.

We typically enter into development agreements with universities and other third parties as "developer at risk." At the same time, we enter into guaranteed maximum price contracts with a general contractor for the construction of the project. In our capacity as "developer at risk," we usually guarantee that a project will be completed within a certain maximum cost. Any additional costs which are not the responsibility of the contractor, under their guaranteed maximum price contract, or the result of changes by the university or other third-party, would be our responsibility to fund. We also typically guarantee that a project will be completed and ready for occupancy by a date certain in order to meet housing needs for a particular school term. If completion of a project was delayed beyond such date certain,

we would be exposed to claims for liquidated damages, which would usually include, but may not be limited to, the cost of housing prospective residents of the community until it was available for occupancy. Although we generally transfer such risks to the general contractor who is responsible for the construction activities of a development project, if we were to experience significant cost-overruns or were to become subject to such a claim or claims, our financial condition, results of operations and/or cash flows could be materially and adversely impacted.

We may encounter delays in completion or experience cost overruns with respect to our properties under construction.

As of December 31, 2015, we were in the process of constructing seven properties for our own development and two properties for third-party owners. We engage third-party contractors for the construction of these properties. These construction projects

involve numerous risks and uncertainties, and may be adversely affected by circumstances outside of our control, including unusually severe weather, unforeseen site conditions, failure to receive building permits on schedule or third-party delays in supplying materials or personnel. We may not be able to negotiate satisfactory construction agreements with third-party contractors, or our third-party contractors may not be able to contract with their subcontractors on a timely basis. In addition, if our contractors fail to adhere to our quality standards or otherwise fail to meet their contractual obligations to us, or if there is a shortage of contractors or labor strikes that prevents our contractors from completing their construction work on schedule or within budget, we may encounter delays in completion or cost overruns. We may not be able to recover our losses resulting from construction cost overruns or delays. Additionally, if we do not complete the construction of properties on schedule, we may be required to provide alternative housing to the students with whom we have signed leases. We would likely incur significant expenses in the event we provide alternative housing, which could have a material adverse effect on our financial condition, cash flows and results of operations. If construction is not completed on schedule, residents may attempt to break their leases and our occupancy at such properties for that academic year may decline significantly. In addition, on our third-party developments, a delay may expose us to damages due to the owner.

We may not be able to recover internal development costs.

When developing collegiate housing communities for our ownership on university land, definitive contracts are 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 predevelopment and other costs in the expectation that an agreement will be executed. These costs could range up to \$1.0 million or more and typically include architects' fees to design the property and third-party fees related to other predevelopment services. If an institution's governing body does not ultimately approve the project we will not be able to recover these predevelopment costs; however, we typically enter into predevelopment agreements whereby we would be reimbursed for a portion of or all of these costs.

We also incur certain predevelopment costs when developing collegiate housing communities for our ownership on private land. Before definitive contracts are executed, all necessary approvals and permits are obtained and financing has been secured, we may incur significant predevelopment and other costs. These costs could range up to \$1.0 million or more and typically include architects' fees to design the project and third-party fees related to other predevelopment services. If the project is determined not to be feasible, these costs are expensed and could negatively impact our results of operations.

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

We cannot assure you that we will be able to identify real estate investments, including joint ventures, 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 and enter into joint ventures 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 collegiate 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 incur an increase in operating costs or may not have the proceeds available to implement renovations or improvements at existing properties which are necessary to attract and retain residents;
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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 residents, 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.

We may be unable to invest our capital resources on acceptable terms or at all.

Our ability to achieve our expected levels of financial performance will depend significantly upon our ability to invest efficiently our available capital resources in accretive transactions. Although we seek to maintain a pipeline of suitable investment opportunities, we cannot assure you that we will be able to identify any acquisition and/or development opportunities or other investments that meet our investment objectives or that any investment that we make will produce a positive return. Moreover, our investment pipeline is generally subject to numerous uncertainties and conditions that make it difficult to predict if or when any such potential transactions will be consummated. Accordingly, we may be unable to invest our available capital resources on acceptable terms within the time period that we anticipate, or at all, and these delays could result in additional dilution and may cause our financial results, including funds from operations ("FFO") per share, to fall short of analyst expectations. Moreover, we have significant flexibility in investing our capital resources, and we may use the resources in ways with which our stockholders may not agree or for purposes other than those that we originally contemplated.

Our ownership of properties through ground leases exposes us to the loss of such properties upon the exercise by the lessor of purchase options contained in certain ground leases, the breach or termination of the ground leases.

We have acquired an interest in certain of our properties by acquiring a leasehold interest in the property on which the building is located (or under development), and we may acquire additional properties in the future through the purchase of interests in ground leases. As the lessee under a ground lease, we are exposed to the possibility of losing the property (or building we may be developing) upon the exercise by the lessor of purchase options contained in certain ground leases, the termination of the ground lease or an earlier breach of the ground lease by us. In particular, pursuant to the ground lease for our 2400 Nueces community at the University of Texas - Austin, the lessor has the option to purchase the Trust's leasehold estate and interest in that property at certain times during the term of the ground lease for pre-determined amounts, which exceed carrying value. Accordingly, we may be required to sell this property for an amount less than what we would otherwise be able to obtain for this property from a third party.

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 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 materially and adversely impact our financial and operating results, as well as our ability to pay distributions.

Certain losses may not be covered by insurance or may be underinsured.

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.

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 ("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 ("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 ("ACBMs"). Environmental laws require that ACBMs be properly managed and maintained, and may impose fines and penalties on building 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. 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 (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 ("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.

Reporting of on-campus crime statistics required of universities may negatively impact our communities.

Federal and state laws require universities to publish and distribute reports of on-campus crime statistics, which may result in negative publicity and media coverage associated with crimes occurring in the vicinity of, or on the premises of, our on-campus communities. Reports of crime or other negative publicity regarding the safety of the students residing on, or near, our communities may have an adverse effect on both our on-campus and off-campus communities.

Joint venture investments could be adversely affected by our lack of sole decision-making authority, our reliance on co-venturers' financial condition and disputes between our co-venturers and us.

We have co-invested and anticipate that we will continue to co-invest with third parties through partnerships, joint ventures or other entities, acquiring noncontrolling interests in or sharing responsibility for managing the affairs of a property, partnership, joint venture or other entity. In such event, we do 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 our 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.

A cybersecurity incident and other technology disruptions could negatively impact our business and our relationships with residents.

We use computers in substantially all aspects of our business operations. We also use mobile devices, social networking and other online activities to connect with our employees, suppliers and our residents. Such uses give rise to cybersecurity risks, including security breach, espionage, system disruption, theft and inadvertent release of information. Our business involves the storage and transmission of numerous classes of sensitive and/or confidential information and intellectual property, including residents' and suppliers' personal information, private information about employees, and financial and strategic information about us. Further, as we pursue our strategy to grow through development and acquisitions and to pursue new initiatives to improve our operations, we are also expanding our information technologies, resulting in a larger technological presence and corresponding exposure to cybersecurity risk. If we fail to assess and identify cybersecurity risks associated with our operations, we may become increasingly vulnerable to such risks. Additionally, the measures we have implemented to prevent security breaches and cyber incidents may not be effective. The theft, destruction, loss, misappropriation or release of sensitive and/or confidential information or intellectual property, or interference with our information technology systems or the technology systems of third-parties on which we rely, could result in business disruption, negative publicity, brand damage, violation of privacy laws, loss of residents, potential liability and competitive disadvantage, any of which could result in a material adverse effect on financial condition or results of operations.

#### Risks Associated with Our Indebtedness and Financing

We depend heavily on the availability of debt and equity 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, (the "Code") to distribute annually at least 90% of our REIT taxable income, determined without regard to the deduction for dividends 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 stockholders in a calendar year is less than a minimum amount specified under federal tax laws. Because of these distribution requirements, REITs are 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 cash distributions to our stockholders, including those necessary to maintain our qualification as a REIT.

Current market conditions could affect our ability to refinance existing indebtedness or obtain additional financing on acceptable terms and may have other adverse effects on us.

Any reductions in our available borrowing capacity, or our inability to renew or replace these facilities when required or when business conditions warrant, could have a material adverse effect on our business, financial condition and



results of operations. Furthermore, if prevailing interest rates or other factors at the time of refinancing result in higher interest rates upon refinancing, then the interest expense relating to that refinanced indebtedness would increase. Higher interest rates on newly incurred debt may negatively impact us as well. If interest rates increase, our interest costs and overall costs of capital will increase, which could adversely affect our transaction and development activity, financial condition, results of operations, cash flow, the market price of our common stock, our ability to pay principal and interest on our debt and our ability to pay dividends to our stockholders.

If we are unable to secure additional financing or refinancing on favorable terms or our operating cash flow is insufficient, we may not be able to satisfy our outstanding financial obligations under our mortgage and construction debt. Furthermore, if financing is not available when needed, or is available on unfavorable terms, we may be unable to take advantage of business opportunities or respond to competitive pressures, any of which could have a material adverse effect on our business, financial

condition and results of operations. A prolonged downturn in the credit markets may cause us to seek alternative sources of potentially less attractive financing. Such sources may not then be available and may require us to adjust our business plan accordingly or significantly cutback or curtail operations and development plans. In addition, these factors may make it more difficult for us to sell properties or may adversely affect the price we receive for properties that we do sell as prospective buyers may experience increased costs of debt financing or difficulties in obtaining debt financing.

In addition, we mortgage some of our properties to secure payment of indebtedness. In 2016, \$35.4 million, or 5.5%, of our mortgage and construction debt reaches maturity. The variable rate mortgage debt maturing in 2016 secured by our University Towers collegiate housing community has two one-year extension options. However, if we are unable to service the debt or exercise the extension options, including in the event we are not successful in refinancing our debt upon maturity if we so choose, then the properties securing the mortgages could be foreclosed upon or transferred to the mortgagee, or we might be forced to dispose of some of our properties on disadvantageous terms, with a consequent loss of income and asset value. A foreclosure or disadvantageous disposal on one or more of our properties could adversely affect our financial condition, results of operations, cash flow and ability to pay dividends on, and the market price of, our common stock.

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

As of December 31, 2015, our total consolidated indebtedness was approximately \$643.0 million (excluding unamortized debt premiums and deferred financing costs). Furthermore, 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. The Fifth Amended Revolver and the Term Loans each contains customary affirmative and negative covenants and provides for potential availability of \$1.0 billion and \$250.0 million, respectively, upon satisfaction of certain conditions. There is no limit on the amount of indebtedness that we may incur, except as provided by the covenants on these debt agreements, which include, without limitation, 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.

In addition, the indenture governing our outstanding 4.60% Senior Unsecured Notes due 2024 (the "Senior Unsecured Notes") contains financial and operating covenants that among other things, restrict our ability to take specific actions, even if we believe them to be in our best interest, including restrictions on our ability to consummate a merger, consolidation or sale of all or substantially all of our assets and incur secured and unsecured indebtedness.

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;
- a default under the Fifth Amended Revolver, Term Loans or Senior Unsecured Notes may preclude further availability of credit from other sources; and
- foreclosures could create taxable income without accompanying cash proceeds, a circumstance that could hinder our ability to meet the REIT distribution requirements.

Failure to maintain our current credit ratings could adversely affect our cost of funds, liquidity and access to capital markets.

In connection with our Senior Unsecured Notes offering, we were assigned a Baa3 senior shelf rating with stable outlook by Moody's Investor's Service, and a "BBB-" issue level and corporate credit rating from Standard & Poor's Ratings Service. These ratings are based on a number of factors, which include their assessment of our financial strength, liquidity, capital structure, asset quality and sustainability of cash flow and earnings. Due to changes in market conditions, we may not be able to maintain our current credit ratings, which will adversely affect the cost of funds under our credit facilities, and could also adversely affect our liquidity and access to capital markets.

Our collegiate housing communities have previously been, and in the future may be, subject to impairment charges, which could adversely affect our results of operations.

We are required to periodically evaluate our properties for impairment indicators. 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, based on its intended use, 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 interest and capitalization rates, demand and occupancy, competition and other factors. Ongoing adverse market and economic conditions and market volatility make it difficult to value our collegiate housing communities. These factors may result in uncertainty in valuation estimates and instability in the estimated value of our collegiate housing communities which, in turn, could result in a substantial decrease in the value of the communities and significant impairment charges.

We continually assess our collegiate housing communities to determine if any dispositions are necessary or appropriate. No assurance can be given that we will be able to recover the current carrying amount of our collegiate housing communities in the future. Our failure to do so would require us to recognize additional impairment charges for the period in which we reached that conclusion, which could materially and adversely affect us and our results of operations.

Variable rate debt is subject to interest rate risk.

We receive a significant portion of our revenues by leasing our properties under leases that generally provide for fixed rental rates, while certain of our debt obligations are floating rate obligations with interest and related payments that vary with the movement of the London InterBank Offered Rate ("LIBOR") or other indexes. The generally fixed rate nature of our revenues and the variable rate nature of certain of our debt obligations create interest rate risk. We have mortgage and construction debt with varying interest rates dependent upon LIBOR plus an applicable margin. In addition, our Fifth Amended Revolver bears interest at a variable rate on all amounts drawn under the facility. As of December 31, 2015, we had a total of \$107.3 million outstanding in variable rate debt, or approximately 16.7%, of our total debt. We may incur additional variable rate debt in the future. Increases in interest rates on variable rate debt would increase our interest expense, unless we make arrangements that hedge the risk of rising interest rates. These increased costs could reduce our profitability, impair our ability to meet our debt obligations, or increase the cost of financing our acquisition, development and redevelopment activity. An increase in interest rates also could limit our ability to refinance existing debt upon maturity or cause us to pay higher rates upon refinancing, as well as decrease the amount that third parties are willing to pay for our assets, thereby limiting our ability to promptly reposition our portfolio in response to changes in economic or other conditions.

We may incur losses on interest rate hedging arrangements.

Periodically, we have entered into agreements to reduce the risks associated with changes in interest rates, and we may continue to do so in the future. Although these agreements may partially protect against rising interest rates, they may also reduce the benefits to us if interest rates decline. If a hedging arrangement is not indexed to the same rate as the indebtedness which is hedged, we may be exposed to losses to the extent which the rate governing the indebtedness and the rate governing the hedging arrangement change independently of each other. Additionally, nonperformance by the other party to the hedging arrangement may subject us to increased credit risks. Moreover, no amount of hedging activity can fully insulate us from the risks associated with changes in interest rates. Failure to hedge effectively against interest rate risk, if we choose to continue to engage in such activities, could adversely affect our results of operations and financial condition.

Broad market fluctuations could negatively impact the market price of our common stock.

As with other publicly traded equity securities, the value of our common stock depends on various market conditions, which may change from time to time. In recent years, the stock market has experienced extreme price and volume fluctuations that have affected the market price of many companies in industries similar or related to ours and that are outside of management's control. These broad market fluctuations could adversely impact the market price of our common stock. Accordingly, the market price of our common stock could change in ways that may or may not be related to our business, our industry or our operating performance and financial condition. Furthermore, our operating results and prospects may not meet the expectations of public market analysts and investors or may not be comparable to companies within our industry and with comparable market capitalizations. Any of these factors could lead to a material decline in the market price of our common stock.

Additional issuances of equity securities may be dilutive to stockholders.

The interests of our stockholders could be diluted if we issue additional equity securities to finance future developments or acquisitions or to repay indebtedness. The Board may authorize the issuance of additional equity securities without stockholder approval. Our ability to execute our business strategy depends upon our access to an appropriate blend of debt financing, including revolving credit facilities and other forms of secured and unsecured debt, and equity financing, including the issuance of common equity.

We may reduce the amount of dividends declared on our common stock.

In order for EdR to continue to qualify as a REIT, we are required to distribute annual dividends generally equal to a minimum of 90% of our REIT taxable income, computed without regard to the dividends paid deduction and our net capital gains. However, in the event of material deterioration in business conditions or tightening in the credit markets, among other factors, the Board may decide to reduce the amount of our dividend while ensuring compliance with the requirements of the Code related to REIT qualification.

#### Risks Related to Our Organization and Structure

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

To maintain our status as a REIT, no more than 25% (20% for taxable years beginning after December 31, 2017) of the value of our total assets may consist of the securities of one or more taxable REIT subsidiaries, such as our Management Company. Our Development Company is a disregarded entity for federal income tax purposes and all assets owned and income earned by our Development Company are deemed to be owned and earned by 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 one of our taxable REIT subsidiaries or an independent contractor. If the revenues from such activities create a risk that the value of our Management Company and other TRSs, based on revenues or otherwise, approaches the 25% (20% for taxable years beginning after December 31, 2017) threshold, we will be forced to curtail such activities or take other steps to remain under the threshold. Because the threshold is based on value, it is possible that the Internal Revenue Service ("IRS") could successfully contend that the value of our Management Company and other TRSs exceed the threshold even if our Management Company and other TRSs accounts for less than 25% (20% for taxable years beginning after December 31, 2017) of our consolidated revenues, income or cash flow, in which case our status as a REIT could be jeopardized.

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 the outstanding shares of our capital stock, including both common and preferred stock. We refer to these restrictions collectively 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 such 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 common 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 the Board 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 ownership limitations 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 the Board;
- the right of the Board, 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 EdR.

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 the affirmative vote of a majority of the votes cast on the matter by our stockholders can change our bylaws at any time to make these provisions applicable to us.

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 the Board or those committees or officers to whom the Board has delegated that authority. The Board also establishes the amount of any distributions that we make to our stockholders. The Board 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 the Board to revoke our REIT election without stockholder approval may cause adverse consequences to our stockholders.

Our charter provides that the Board 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 advisable and 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 upon key personnel whose continued service is not guaranteed.

We depend upon the services of our key personnel, particularly Randy Churchey, our Chairman and Chief Executive Officer, Edwin B. Brewer, Jr., our Executive Vice President and Chief Financial Officer, Thomas Trubiana, our President, and Christine Richards, our Executive Vice President and Chief Operating Officer. Mr. Churchey's considerable experience as a senior executive officer of publicly traded real estate companies, including REITs, prior service to EdR as a member of the Board and familiarity with our operational and organizational structure are critical to the oversight and implementation of our strategic initiatives and the evaluation of our operational performance. In addition, Mr. Brewer 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. Mr. Trubiana has been in the collegiate housing business for over 30 years, and 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. Ms. Richards possesses detailed knowledge of our property operations that is critical to the oversight of our communities' performance and has considerable experience in the collegiate housing industry. 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 common stock.

We intend to continue to be organized and to operate in a manner that will allow us to qualify as a REIT 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 year that we fail to qualify as a REIT because:

- we would not be allowed a deduction for distributions to stockholders in computing our taxable income and, therefore, 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. As a result of all these factors, our failure to qualify as a REIT 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 partnerships and limited liability companies. 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 diversification of our assets and the sources of our gross income composition of our assets and two "gross income tests." To satisfy the sources of gross income requirements, we must derive (a) at least 75% of our gross income in any year 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 from sources meeting the 75% gross 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, determined without regard to the deduction for dividends paid and excluding any net capital gains. In order to meet these requirements, we may be

required to forgo investments we might otherwise make. Thus, compliance with the REIT requirements may hinder our performance. 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 maintain our status as a REIT, we may become subject to federal and state income taxes. For example, if we recognize a gain from a sale of dealer property or inventory or if our Management Company enters into agreements with us or our residents on a basis that is determined to be other than an arm's length, that gain or 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/or 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 the 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 (to the extent that they do not exceed our actual net capital gain for the taxable year) will be treated as taxable to stockholders as gains 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 have historically exceeded, and may continue to exceed, the amount of our net income as a REIT. Any distributions in excess of a stockholder's share of our current and accumulated earnings and profits 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 both the stockholder's share of our current and accumulated earnings and profits and the stockholder's basis in our stock, the stockholder will recognize capital gain, assuming the stock is held as a capital asset. If distributions by us result in a reduction of a stockholder's adjusted basis in its stock, subsequent sales by such stockholder of its stock potentially will result in recognition of an increased capital gain or reduced capital loss due to the reduction in such stockholder's adjusted basis in its stock.

The tax imposed on REITs engaging in "prohibited transactions" may limit our ability to engage in transactions which would be treated as sales for federal income tax purposes.

A REIT's net income from prohibited transactions is subject to a 100% penalty tax. In general, prohibited transactions are sales or other dispositions of property, other than foreclosure property held in inventory primarily for sale to customers in the ordinary course of business. Although we do not intend to hold any properties that would be characterized as inventory held for sale to customers in the ordinary course of our business, subject to certain statutory safe harbors, such characterization is a factual determination and no guarantee can be given that the IRS would agree with our characterization of our properties or that we will always be able to make use of the available safe harbors.

If the Operating Partnership fails to maintain its status as a partnership for federal income tax purposes, its income may be subject to corporate-level income taxation.

We intend for the Operating Partnership to maintain its status as a partnership for federal income tax purposes; however, if the IRS were to successfully challenge the status of the Operating Partnership as a partnership, the Operating Partnership would be taxable as a corporation. In such event, this would reduce the amount of distributions that the Operating Partnership could make to us. This could also result in our losing REIT status and becoming subject to a corporate-level income tax. This would substantially reduce our cash available to pay distributions to our stockholders. In addition, if any of the entities through which the Operating Partnership owns its properties, in whole or in part, loses its characterization as a partnership for federal income tax purposes, it would be subject to taxation as a corporation, thereby reducing distributions to the Operating Partnership. Such a re-characterization of an underlying property owner could also threaten our ability to maintain REIT status.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

General

As of December 31, 2015, our owned portfolio consisted of 59 communities located in 21 states containing 30,400 beds in 11,679 apartment units located near 37 universities.

The majority of our owned portfolio consists of modern collegiate housing apartments with fully-furnished private bedrooms with bed bath parity centered around a common area consisting of a fully-furnished living room, fully-equipped eat-in kitchen and washers/dryers. 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 collegiate housing communities typically contain a swimming pool, recreational facilities and common areas, and each bedroom has individual locks, high-speed Internet access and cable television connections.

Our owned collegiate housing communities typically have the following characteristics:

- median distance to campus of 0.1 miles;
- median age of approximately 5 years;
- designed specifically for student life style 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.

Communities

The following table provides certain summary information about our owned communities as of December 31, 2015, which are included in the collegiate housing leasing segment discussed in Note 13, Segments, to our accompanying consolidated financial statements. The majority of our communities are owned fee simple with the exception of University Village on Colvin, GrandMarc at the Corner, GrandMarc at Westberry Place, Campus Village, Campus West, 2400 Nueces and the UK properties, all of which are operated pursuant to ground lease agreements.

Name	Primary University Served	Region	Year Built	Acquisition/ Development Date	# of Beds	# of Units
Commons at Knoxville	University of Tennessee Knoxville, Tennessee	South Central	1999	Jan '05	708	211
Players Club	Florida State University Tallahassee, Florida	Southeast	1994	Jan '05	336	84
The Commons	Florida State University Tallahassee, Florida	Southeast	1997	Jan '05	732	252
The Lofts	University of Central Florida Orlando, Florida	Southeast	2002	Jan '05	730	254
The Pointe	Pennsylvania State University State College, Pennsylvania	Mid-Atlantic	1999	Jan '05	984	294

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The Reserve at Athens	University of Georgia Athens, Georgia	Southeast	1999	Jan '05	612	200
The Reserve at Columbia	University of Missouri Columbia, Missouri	Midwest	2000	Jan '05	676	260
The Reserve on Perkins	Oklahoma State University Stillwater, Oklahoma	Midwest	1999	Jan '05	732	234
University Towers	North Carolina State University Raleigh, North Carolina	Mid-Atlantic	1989	Jan '05	889	251
Campus Creek	University of Mississippi Oxford, Mississippi	South Central	2004	Feb '05	636	192
Campus Lodge	University of Florida Gainesville, Florida	Southeast	2001	Jun '05	1,115	360

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Name	Primary University Served	Region	Year Built	Acquisition/ Development Date	# of Beds	# of Units
Carrollton Crossing	State University of West Georgia Carrollton, Georgia	Southeast	1998	Jan '06	336	84
River Pointe	State University of West Georgia Carrollton, Georgia	Southeast	2000	Jan '06	504	132
The Reserve at Saluki Pointe	Southern Illinois University Carbondale, Illinois	North	2008	Aug '08/ Aug '09	768	228
University Village on Colvin	Syracuse University Syracuse, New York	Mid-Atlantic	2009	Aug '09	432	120
GrandMarc at the Corner	University of Virginia Charlottesville, Virginia	Mid-Atlantic				