Education Realty Trust, Inc.
Form 10-Q
November 09, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2009
Or

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

For the transition period from
To

Commission File Number: 001-32417
Education Realty Trust, Inc.
(Exact name of registrant as specified in its charter)

Maryland	20-1352180
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

530 Oak Court Drive, Suite 300, Memphis, Tennessee	38117
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (901) 259-2500
Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x 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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ¨ No ¨

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):

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

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

As of November 6, 2009, the latest practicable date, the Registrant had outstanding 56,697,966 shares of common stock, $.01 par value per share.

EDUCATION REALTY TRUST, INC.
FORM 10-Q
QUARTER ENDED SEPTEMBER 30, 2009
TABLE OF CONTENTS

Part I — Financial Information

Item 1. Financial Statements.

CONDENSED CONSOLIDATED BALANCE SHEETS
(Amounts in thousands, except share and per share data)
(Unaudited)

	September 30, 2009	December 31, 2008
ASSETS		
Assets:		
Student housing properties, net	$ 755,504	$ 731,400
Student housing properties – held for sale	—	2,107
Assets under development	—	6,572
Corporate office furniture and equipment, net	1,117	1,465
Cash and cash equivalents	83,940	9,003
Restricted cash	7,942	5,595
Student contracts receivable, net	411	533
Receivable from affiliate	25	25
Management fee receivable from third party	253	401
Goodwill and other intangibles, net	3,082	3,111
Note receivable from unconsolidated joint venture	824	834
Other assets	12,596	16,601
Total assets	$ 865,694	$ 777,647
LIABILITIES AND EQUITY		
Liabilities:		
Mortgage and construction loans, net of unamortized premium/discount	$ 457,608	$ 442,259
Revolving line of credit	—	32,900
Accounts payable	640	303
Accrued expenses	13,383	9,144
Accrued interest	2,011	1,158
Deferred revenue	12,674	9,954
Total liabilities	486,316	495,718
Commitments and contingencies (see Note 6)	—	—
Redeemable noncontrolling interests	11,042	11,751
Equity:		
Education Realty Trust, Inc. stockholders' equity:		
Common stock, $0.01 par value, 200,000,000 shares authorized, 56,685,849 and 28,475,855 shares issued and outstanding at September 30, 2009 and December 31, 2008, respectively	567	285
Preferred shares, $0.01 par value, 50,000,000 shares authorized, no shares issued and outstanding	—	—
Additional paid-in capital	413,068	308,356
Accumulated deficit	(48,101)	(41,381)

Total Education Realty Trust, Inc. stockholders' equity		365,534		267,260
Noncontrolling interest		2,802		2,918
Total equity		368,336		270,178
Total liabilities and equity	$	865,694	$	777,647

See accompanying notes to the condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Amounts in thousands, except share and per share data)
(Unaudited)

	Nine months ended September 30, 2009	Nine months ended September 30, 2008
Revenues:		
Student housing leasing revenue	$ 81,326	$ 77,531
Student housing food service revenue	1,636	1,804
Other leasing revenue	—	6,945
Third-party development services	5,275	6,224
Third-party management services	2,370	2,677
Operating expense reimbursements	7,749	8,192
Total revenues	98,356	103,373
Operating expenses:		
Student housing leasing operations	42,912	42,726
Student housing food service operations	1,579	1,728
General and administrative	11,738	11,867
Depreciation and amortization	21,501	21,823
Reimbursable operating expenses	7,749	8,192
Total operating expenses	85,479	86,336
Operating income	12,877	17,037
Nonoperating expenses:		
Interest expense	18,825	18,556
Amortization of deferred financing costs	749	740
Interest income	(334)	(267)
Gain on extinguishment of debt	(830)	—
Total nonoperating expenses	18,410	19,029
Loss from continuing operations before equity in earnings (losses) of unconsolidated entities, income taxes, redeemable noncontrolling interests and discontinued operations	(5,533)	(1,992)
Equity in earnings (losses) of unconsolidated entities	(6)	(223)
Loss from continuing operations before income taxes, redeemable noncontrolling interests and discontinued operations	(5,539)	(2,215)
Income tax expense	1,203	882
Loss from continuing operations before redeemable noncontrolling interests	(6,742)	(3,097)
Loss attributable to redeemable noncontrolling interests	(29)	(147)
Loss from continuing operations	(6,713)	(2,950)
Loss from discontinued operations	(21)	(113)
Net loss	(6,734)	(3,063)
Less: Net loss attributable to the noncontrolling interest	(14)	(11)
Net loss attributable to Education Realty Trust, Inc.	$ (6,720)	$ (3,052)

		Nine months ended September 30, 2009		Nine months ended September 30, 2008
Earnings per share information:				
Loss attributable to Education Realty Trust, Inc. common stockholders per share — basic & diluted:				
Continuing operations	$	(0.19)	$	(0.10)
Discontinued operations		—		(0.01)
Net loss attributable to Education Realty Trust, Inc. common stockholders per share	$	(0.19)	$	(0.11)
Weighted average common shares outstanding – basic & diluted		35,013,814		28,512,037
Amounts attributable to Education Realty Trust, Inc. – common stockholders:				
Loss from continuing operations, net of tax	$	(6,700)	$	(2,943)
Loss from discontinued operations, net of tax		(20)		(109)
Net loss	$	(6,720)	$	(3,052)
Distributions per common share	$	0.3075	$	0.6150

See accompanying notes to the condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Amounts in thousands, except share and per share data)
(Unaudited)

	Three months ended September 30, 2009	Three months ended September 30, 2008
Revenues:		
Student housing leasing revenue	$ 25,105	$ 24,587
Student housing food service revenue	577	608
Other leasing revenue	—	—
Third-party development services	2,559	3,216
Third-party management services	738	870
Operating expense reimbursements	3,523	3,052
Total revenues	32,502	32,333
Operating expenses:		
Student housing leasing operations	17,826	17,695
Student housing food service operations	566	600
General and administrative	3,903	4,017
Depreciation and amortization	7,227	7,054
Reimbursable operating expenses	3,523	3,052
Total operating expenses	33,045	32,418
Operating loss	(543)	(85)
Nonoperating expenses:		
Interest expense	6,323	6,343
Amortization of deferred financing costs	230	253
Interest income	(180)	(77)
Total nonoperating expenses	6,373	6,519
Loss from continuing operations before equity in earnings (losses) of unconsolidated entities, income taxes, redeemable noncontrolling interests and discontinued operations	(6,916)	(6,604)
Equity in earnings (losses) of unconsolidated entities	(152)	(196)
Loss from continuing operations before income taxes, redeemable noncontrolling interests and discontinued operations	(7,068)	(6,800)
Income tax expense	513	709
Loss from continuing operations before redeemable noncontrolling interests	(7,581)	(7,509)
Loss attributable to redeemable noncontrolling interests	(167)	(268)
Loss from continuing operations	(7,414)	(7,241)
Loss from discontinued operations	(3)	(79)
Net loss	(7,417)	(7,320)
Less: Net loss attributable to the noncontrolling interest	(33)	(61)
Net loss attributable to Education Realty Trust, Inc.	$ (7,384)	$ (7,259)

		Three months ended September 30, 2009		Three months ended September 30, 2008
Earnings per share information:				
Loss attributable to Education Realty Trust, Inc. common stockholders per share — basic & diluted:				
Continuing operations	$	(0.15)	$	(0.25)
Discontinued operations		—		—
Net loss attributable to Education Realty Trust, Inc. common stockholders per share	$	(0.15)	$	(0.25)
Weighted average common shares outstanding – basic & diluted		47,932,410		28,514,966
Amounts attributable to Education Realty Trust, Inc. – common stockholders:				
Loss from continuing operations, net of tax	$	(7,381)	$	(7,183)
Loss from discontinued operations, net of tax		(3)		(76)
Net loss	$	(7,384)	$	(7,259)
Distributions per common share	$	0.1025	$	0.2050

See accompanying notes to the condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Amounts in thousands, except share data)
(Unaudited)

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Accumulated Deficit	Noncontrolling Interest	Total
Balance, December 31, 2007	28,431,855	$ 284	$ 330,969	$ (33,434)	$ 3,242	$ 301,061
Common stock issued to officers and directors	8,000	—	101	—	—	101
Amortization of restricted stock	26,994	1	453	—	—	454
Cash dividends	—	—	(17,533)	—	(174)	(17,707)
PIU's forfeited	—	—	16	—	(16)	—
PIU's issued	—	—	—	—	49	49
Net loss	—	—	—	(3,052)	(11)	(3,063)
Balance, September 30, 2008	28,466,849	$ 285	$ 314,006	$ (36,486)	$ 3,090	$ 280,895
Balance, December 31, 2008	28,475,855	$ 285	$ 308,356	$ (41,381)	$ 2,918	$ 270,178
Common stock issued to officers and directors	8,000	—	34	—	—	34
Amortization of restricted stock	26,994	—	453	—	—	453
Issuance of common stock from follow-on offering, net of offering costs	28,175,000	282	115,851	—	—	116,133
Cash dividends	—	—	(11,656)	—	(85)	(11,741)
PIU's forfeited	—	—	30	—	(30)	—
PIU's issued	—	—	—	—	13	13
Net loss	—	—	—	(6,720)	(14)	(6,734)
Balance, September 30, 2009	56,685,849	$ 567	$ 413,068	$ (48,101)	$ 2,802	$ 368,336

See accompanying notes to the condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in thousands)
(Unaudited)

	Nine months ended September 30, 2009	Nine months ended September 30, 2008
Operating activities:		
Net loss	$ (6,734)	$ (3,063)
Adjustments to reconcile net loss to net cash provided by operating activities:		—
Depreciation and amortization	21,501	21,823
Depreciation included in discontinued operations	25	73
Deferred tax expense/(benefit)	143	(439)
(Gain)/loss on disposal of assets	(3)	519
Gain on extinguishment of debt	(830)	—
Amortization of deferred financing costs	749	740
Gain on interest rate cap	(237)	—
Amortization of unamortized debt premiums/discounts	(304)	(366)
Distributions of earnings from unconsolidated entities	294	192
Noncash compensation expense related to PIUs and restricted stock	509	597
Equity in (earnings) losses of unconsolidated entities	6	223
Redeemable noncontrolling interest in continuing operations	(28)	(143)
Redeemable noncontrolling interest in discontinued operations	(1)	(4)
Change in operating assets and liabilities	14,355	9,747
Net cash provided by operating activities	29,445	29,899
Investing activities:		
Purchase of corporate furniture and equipment	(85)	(177)
Restricted cash	(2,347)	(2,138)
Investment in student housing properties	(16,102)	(14,032)
Proceeds from sale of assets	—	2,578
Proceeds from sale of student housing properties	154	—
Insurance proceeds received for property damage	224	387
Investment in assets under development	(22,676)	(13,095)
Investment in unconsolidated entities	(384)	(374)
Net cash used in investing activities	(41,216)	(26,851)
Financing activities:		
Payment of mortgage notes	(2,162)	(25,599)
Borrowings under mortgage notes and construction loans	17,815	34,039
Borrowings (repayments) under line of credit, net	(32,900)	7,100
Debt issuance costs	(588)	(230)
Proceeds from refund of defeasance costs	830	—
Proceeds from common stock offering	122,561	—
Payment of offering costs	(6,428)	—
Dividends and distributions paid to common and restricted stockholders	(11,656)	(17,533)
Dividends and distributions paid to noncontrolling interests	(764)	(2,103)
Net cash (used in) provided by financing activities	86,708	(4,326)
Net (decrease) increase in cash and cash equivalents	74,937	(1,278)
Cash and cash equivalents, beginning of period	9,003	4,034

Cash and cash equivalents, end of period	$	83,940	$	2,756

See accompanying notes to the condensed consolidated financial statements.

	Nine months ended September 30, 2009	Nine months ended September 30, 2008
Supplemental disclosure of cash flow information:		
Interest paid	$ 18,989	$ 19,379
Income taxes paid	$ 695	$ 177
Supplemental disclosure of noncash activities:		
Redemption of noncontrolling interests from unit holder	$ —	$ 893
Note receivable received in connection with sale of student housing property	$ 2,300	$ —

See accompanying notes to the condensed consolidated financial statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands, except share and per share data)
(Unaudited)

1. Organization and description of business

Education Realty Trust, Inc. (the “Trust”) was organized in the state of Maryland on July 12, 2004 and commenced operations as a real estate investment trust (“REIT”) effective with the initial public offering that was completed on January 31, 2005. Under the Trust’s Articles of Incorporation, as amended, the Trust is authorized to issue up to 200 million shares of common stock and 50 million shares of preferred stock, each having a par value of $0.01 per share.

The Trust operates primarily through a majority-owned Delaware limited partnership, Education Realty Operating Partnership, LP (the “Operating Partnership”). The Operating Partnership owns, directly or indirectly, interests in student housing communities located near major universities in the United States.

The Trust also provides real estate facility management, development and other advisory services through the following subsidiaries of the Operating Partnership:

- Allen & O’Hara Education Services, Inc. (“AOES”), a Delaware corporation performing student housing management activities; and

- Allen & O’Hara Development Company, LLC (“AODC”), a Delaware limited liability company providing development consulting services for third party student housing properties.

The Trust is subject to the risks involved with the ownership and operation of residential real estate near major universities throughout the United States. The risks include, among others, those normally associated with changes in the demand for housing by students at the related universities, competition for tenants, creditworthiness of tenants, changes in tax laws, interest rate levels, the availability of financing, and potential liability under environmental and other laws.

2. Summary of significant accounting policies

Basis of presentation and principles of consolidation

The accompanying condensed consolidated financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States (“GAAP”). The accompanying condensed consolidated financial statements represent the assets and liabilities and operating results of the Trust and its majority owned subsidiaries.

The Trust, as the sole general partner of the Operating Partnership, has the responsibility and discretion in the management and control of the Operating Partnership, and the limited partners of the Operating Partnership, in such capacity, have no authority to transact business for, or participate in the management activities of the Operating Partnership. Accordingly, the Trust accounts for the Operating Partnership using the consolidation method.

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

Interim financial information

The accompanying unaudited interim financial statements include all adjustments, consisting only of normal recurring adjustments, that in the opinion of management are necessary for a fair presentation of the Trust's financial position, results of operations and cash flows for such periods. Because of the seasonal nature of the business, the operating results and cash flows are not necessarily indicative of results that may be expected for any other interim periods or for the full fiscal year. These financial statements should be read in conjunction with the Trust's consolidated financial statements and related notes, included in the Trust's Annual Report on Form 10-K for the year ended December 31, 2008, filed with the Securities and Exchange Commission (the "SEC").

Use of estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates and assumptions are used by management in determining the recognition of third-party development consulting services revenue under the percentage of completion method, useful lives of student housing assets, the valuation of goodwill, the initial valuations and underlying allocations of purchase price in connection with student property acquisitions, the determination of fair value for impairment assessments, and in the recording of the allowance for doubtful accounts. Actual results could differ significantly from those estimates.

Cash and cash equivalents

All highly liquid investments with a maturity of three months or less when purchased are considered cash equivalents. Restricted cash is excluded from cash for the purpose of preparing the condensed consolidated statements of cash flows. The Trust maintains cash balances in various banks. At times, the amounts of cash held in certain bank accounts may exceed the amount that the Federal Deposit Insurance Corporation ("FDIC") insures. At September 30, 2009, the Trust had $74,876 of cash on deposit that was uninsured by the FDIC or in excess of FDIC limits.

Restricted cash

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

Distributions

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

Student housing properties

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

Acquired student housing properties' results of operations are included in the Trust's results of operations from the respective dates of acquisition. Appraisals, estimates of cash flows and valuation techniques are used to allocate the purchase price of acquired property between land, land improvements, buildings and improvements, furniture, fixtures and equipment and identifiable intangibles such as amounts related to in-place leases. On January 1, 2009, the Trust adopted the authoritative guidance issued by the Financial Accounting Standards Board ("FASB"), which prospectively changed the requirements for how an acquirer recognizes and measures the identifiable assets acquired, the liabilities assumed, any noncontrolling interest in the acquiree and the goodwill acquired. The guidance also enhanced the disclosures to enable the evaluation of the nature and financial effects of the business combination and requires that pre-acquisition costs be expensed as incurred. Pre-acquisition costs, which include legal and professional fees and other third-party costs related directly to the acquisition of a property, were accounted for as part of the purchase price prior to the adoption of the guidance issued by the FASB.

12

Management assesses impairment of long-lived assets to be held and used whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Management uses an estimate of future undiscounted cash flows of the related asset over the remaining life in measuring whether the assets are recoverable.

When a student housing property has met the criteria to be classified as held for sale, the fair value less cost to sell such asset is estimated. If the fair value less cost to sell the asset is less than the carrying amount of the asset, an impairment charge is recorded for the estimated loss. Depreciation expense is no longer recorded once a student housing property has met the held for sale criteria. Operations of student housing properties that are sold or classified as held for sale are recorded as part of discontinued operations for all periods presented. No impairment loss on student housing properties held for sale was recognized in the accompanying condensed consolidated statements of operations.

Repairs, maintenance and major improvements

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

Investment in unconsolidated joint ventures, limited liability companies and limited partnerships

The Operating Partnership accounts for its investments in unconsolidated joint ventures, limited liability companies and limited partnerships using the equity method whereby the cost of an investment is adjusted for the Trust's share of earnings of the respective investment reduced by distributions received. The earnings and distributions of the unconsolidated joint ventures, limited liability companies and limited partnerships are allocated based on each owner's respective ownership interests. These investments are classified as other assets in the accompanying condensed consolidated balance sheets.

Deferred financing costs

Deferred financing costs represent costs incurred in connection with acquiring debt facilities. These costs are amortized over the terms of the related debt using a method that approximates the effective interest method. Deferred financing costs, net of amortization, are included in other assets in the accompanying condensed consolidated balance sheets.

Common stock issuances and offering costs

Specific incremental costs directly attributable to the issuance of common stock are charged against the gross proceeds. Accordingly, underwriting commissions and other stock issuance costs are reflected as a reduction of additional paid-in capital in the accompanying condensed consolidated statement of changes in equity.

On July 28, 2009, the Trust completed a follow-on common stock offering, selling 28,175,000 shares of the Trust's common stock, including 3,675,000 shares issued as a result of the exercise of the underwriters' overallotment option in full at closing, at a price of $4.35 per share to the public. The offering generated gross proceeds of $122,561. The net proceeds to the Trust, after the underwriting discount and other expenses of the offering were approximately $116,133.

Debt premiums/discounts

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

Income taxes

The Trust qualifies as a REIT under the Internal Revenue Code of 1986, as amended (the "Code"). The Trust is generally not subject to federal income tax to the extent that it distributes at least 90% of its taxable income for each tax year to its stockholders. REITs are subject to a number of organizational and operational requirements. If the Trust fails to qualify as a REIT in any taxable year, the Trust will be subject to federal income tax (including any applicable alternative minimum tax) on its taxable income and property and to federal income and excise taxes on its undistributed income.

The Trust has elected to treat its management company, AOES, as a taxable REIT subsidiary ("TRS"). The TRS is subject to federal, state and local income taxes. AOES manages the Trust's non-REIT activities which include management services and development services, which are provided through AODC. Deferred tax assets and liabilities are recognized based on the difference between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using enacted tax rates in effect in the years in which those temporary differences are expected to reverse.

The Trust had no unrecognized tax benefits as of September 30, 2009 and 2008. As of September 30, 2009, the Trust does not expect to record any unrecognized tax benefits. The Trust, or its subsidiaries, files federal and state income tax returns. As of September 30, 2009, open tax years generally include tax years 2005-2008. The Trust's policy is to include interest and penalties related to unrecognized tax benefits in general and administrative expenses. At September 30, 2009, the Trust had no interest or penalties recorded related to unrecognized tax benefits.

Noncontrolling interests

On January 1, 2009, the Trust adopted the authoritative guidance issued by the FASB that changes the accounting and reporting for noncontrolling interests. The guidance establishes the accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent, the amount of consolidated net income attributable to the parent and to the noncontrolling interests, changes in a parent's ownership interest and the valuation of retained noncontrolling equity investments when a subsidiary is deconsolidated. The guidance also establishes disclosure requirements to clearly distinguish between the interests of the parent and the interests of the noncontrolling owners. The Operating Partnership Units, the University Towers Operating Partnership Units and profits interest units ("PIU") (see Note 9) are now referred to as noncontrolling interests (formerly, minority interests).

In connection with the adoption, the Trust also considered the guidance issued by the FASB regarding the classification and measurement of redeemable securities. The Operating Partnership Units and the University Towers Operating Partnership Units are redeemable at the option of the holder and essentially have the same characteristics as common stock as they participate in net income and distributions. Accordingly, the Trust determined that the Operating Partnership Units and the University Towers Operating Partnership Units meet the requirements to be classified outside of permanent equity and are therefore classified as redeemable noncontrolling interests in the accompanying condensed consolidated balance sheets. The value of redeemable noncontrolling interests is reported at the greater of fair value or historical cost at the end of each reporting period.

The PIU's were determined to be noncontrolling interests that are not redeemable and accordingly these amounts were reclassified to equity in the accompanying condensed consolidated balance sheets. The PIU holder's share of income or loss is reported in the accompanying condensed consolidated statements of operations as net income attributable to noncontrolling interests.

Earnings per share

Basic earnings per share is calculated by dividing net earnings available to common shares by weighted average common shares outstanding. Diluted earnings per share is calculated similarly, except that it includes the dilutive effect of the assumed exercise of potentially dilutive securities. Beginning January 1, 2009, the Trust adopted the authoritative guidance on determining whether certain instruments are participating securities. All unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents are to be included in the computation of earnings per share under the two-class method. This resulted in shares of unvested restricted stock being included in the computation of basic earnings per share for all periods presented.

As of September 30, 2009 and 2008, the following potentially dilutive securities were outstanding but were not included in the computation of diluted earnings per share because the effects of their inclusion would be anti-dilutive:

	2009	2008
Operating Partnership units	913,738	913,738
University Towers Operating Partnership units	207,257	207,257
Profits Interest Units	277,500	282,500
Total potentially dilutive securities	1,398,495	1,403,495

A reconciliation of the numerators and denominators for the basic and diluted earnings per share computation is not presented, as the Trust reported a loss from continuing operations for all periods presented, and therefore the effect of the inclusion of all potentially dilutive securities would be anti-dilutive when computing diluted earnings per share; thus, the computation for both basic and diluted earnings per share is the same.

Goodwill and other intangible assets

Goodwill is tested annually for impairment, and is tested for impairment more frequently if events and circumstances indicate that the assets might be impaired. An impairment loss is recognized to the extent that the carrying amount exceeds the asset's fair value. The carrying value of goodwill was $3,070 at September 30, 2009 and December 31, 2008. Other intangible assets generally include in-place leases and management contracts acquired in connection with acquisitions and are amortized over the estimated life of the lease/contract term. The carrying value of other intangible assets was $12 and $41 at September 30, 2009 and December 31, 2008, respectively.

Comprehensive Income

The Trust follows the authoritative guidance issued by the FASB relating to the reporting and display of comprehensive income and its components. For all periods presented, comprehensive income (loss) is equal to net income (loss).

Revenue recognition

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

Student housing leasing revenue — Student housing leasing revenue is comprised of all activities related to leasing and operating the student housing properties and includes revenues from leasing apartments by the bed, parking lot rentals, and providing certain ancillary services. This revenue is reflected in student housing leasing revenue in the accompanying condensed consolidated statements of operations. Students are required to execute lease contracts with payment schedules that vary from annual to monthly payments. Generally, the Trust requires each executed leasing contract to be accompanied by a signed parental guarantee. Receivables are recorded when billed. Revenues and related lease incentives and nonrefundable application and service fees are recognized on a straight-line basis over the term of the contracts. The Trust has no contingent rental contracts, except as noted below, related to other leasing revenue. At certain student housing facilities, the Trust offers parking lot rentals to the tenants. The related revenues are recognized on a straight-line basis over the term of the related agreement.

Student housing food service revenue — The Trust maintains a dining facility at University Towers, which offers meal plans to the tenants as well as dining to other third-party customers. The meal plans typically require upfront payment by the tenant covering the school semester, and the related revenue is recognized on a straight-line basis over the corresponding semester.

Other leasing revenue — Other leasing revenue relates to our leasing of the 13 properties ("Place Portfolio") we acquired from Place Properties, Inc. ("Place") in January 2006. Simultaneous with the acquisition of the Place Portfolio, the Trust leased the assets to Place and received base monthly rent of $1,145 and had the right to receive "Additional Rent" annually if the properties exceeded certain criteria defined in the lease agreement. Base rent was recognized on a straight-line basis over the lease term and Additional Rent was recognized only upon satisfaction of the defined criteria. The lease was terminated on February 1, 2008. In connection with the termination of the lease, Place paid the Operating Partnership a lease termination fee of $6,000 of which $5,800 was recognized during the nine months ended September 30, 2008.

Third-party development services revenue — The Trust provides development consulting services in an agency capacity with third parties whereby the fee is determined based upon the total construction costs. Total fees vary from 3-5% of the total estimated costs, and we typically receive a portion of the fees up front. These fees, including the upfront fee, are recognized using the percentage of completion method in proportion to the contract costs incurred by the owner over the course of construction of the respective projects. Occasionally, the development consulting contracts include a provision whereby the Trust can participate in project savings resulting from successful cost management efforts. These revenues are recognized once all contractual terms have been satisfied and no future performance requirements exist. This typically occurs after construction is complete. For both the nine months and three months ended September 30, 2009 and 2008, there was $1,224 and $1,944 revenue recognized related to cost savings, respectively.

Third-party management services revenue — The Trust enters into management contracts to manage third-party student housing facilities. Management revenues are recognized when earned in accordance with each management contract. Incentive management fees are recognized when the incentive criteria have been met.

Operating expense reimbursements — The Trust pays certain payroll and related costs to operate third-party student housing properties that are managed by the Trust and certain costs for third-party development services. Under the terms of the related management and development agreements, the third-party owners reimburse these costs. The amounts billed to the third-party owners are recognized as revenue.

Costs related to third-party development consulting services

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

Recently issued accounting pronouncements

In May 2009, the FASB issued new authoritative guidance on subsequent events. The new guidance is intended to establish general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. Specifically, this standard sets forth the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements, and the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. This guidance is effective for financial statements issued for fiscal years and interim periods beginning after June 15, 2009 and is applied prospectively. The Trust adopted this authoritative guidance during the three months ended September 30, 2009.

In June 2009, the FASB issued guidance to improve financial reporting by enterprises involved with variable interest entities. The new guidance is effective for financial statements issued for fiscal years beginning after November 15, 2009, with earlier adoption prohibited. The Trust is currently evaluating the impact of adoption on its consolidated financial statements.

16

In June 2009, the FASB issued guidance to establish only two levels of GAAP, authoritative and nonauthoritative. The FASB Accounting Standards Codification (the "Codification") is the source of authoritative, nongovernmental GAAP, except for rules and interpretive releases of the SEC, which are sources of authoritative GAAP for SEC registrants. All other nongrandfathered, non-SEC accounting literature not included in the Codification is nonauthoritative. This standard is effective for financial statements issued for fiscal years and interim periods ending after September 15, 2009. As the Codification was not intended to change or alter existing GAAP, it did not have any impact on the Trust's consolidated financial statements.

3. Investments in unconsolidated entities

As of September 30, 2009, the Trust had investments, directly or indirectly, in the following active unconsolidated joint ventures, limited liability companies and limited partnerships that are accounted for under the equity method:

- University Village-Greensboro LLC, a Delaware limited liability company, 25% owned by the Operating Partnership
- WEDR Riverside Investors V, LLC, a Delaware limited liability company, 10% owned by the Operating Partnership
- APF EDR, LP, a Delaware limited partnership, 10% owned by the Operating Partnership
- APF EDR Food Services, LP, a Delaware limited partnership, 10% owned by the Operating Partnership
- WEDR Stinson Investors V, LLC, a Delaware limited liability company, 10% owned by the Operating Partnership

The following is a summary of financial information for the Trust's unconsolidated joint ventures, limited liability companies and limited partnerships for the nine months ended September 30, 2009 and 2008:

	2009	2008
Results of Operations:		
Revenues	$ 11,718	$ 11,744
Net loss	(753)	(2,107)
Equity in earnings (losses) of unconsolidated entities	$ (6)	$ (223)

These entities primarily own student housing communities which are managed by the Trust. As of September 30, 2009 and December 31, 2008, the Trust's investment in unconsolidated entities totaled $2,843 and $2,759, respectively.

4. Debt

Revolving credit facility

The Operating Partnership has a revolving credit facility (the "Amended Revolver") dated January 31, 2005 with a maximum availability of $100,000. Availability under the Amended Revolver is limited to a "borrowing base availability" equal to the lesser of (i) 65% of the property asset value (as defined in the amended agreement) of the properties securing the facility and (ii) the loan amount which would produce a debt service coverage ratio of no less than 1.30, with debt service based on the greater of two different sets of conditions specified in the amended agreement. As of September 30, 2009, our borrowing base was $47,055, we had no amounts outstanding and we had letters of credit outstanding of $2,000 (see Note 6); thus, our remaining availability was $45,055. We do, however, have additional unmortgaged properties that can be pledged against the Amended Revolver to increase total borrowing availability.

The Trust serves as the guarantor for any funds borrowed by the Operating Partnership under the Amended Revolver. Additionally, the Amended Revolver is secured by a cross-collateralized, first mortgage lien on five otherwise unmortgaged properties. The Amended Revolver had a term of three years and matured on March 30, 2009. However, the Operating Partnership exercised its option to extend the maturity date until March 30, 2010, under existing terms. The interest rate per annum applicable to the Amended Revolver is, at the Operating Partnership's option, equal to a base rate or London InterBank Offered Rate ("LIBOR") plus an applicable margin based upon our leverage.

The Amended Revolver contains customary affirmative and negative covenants and contains financial covenants that, among other things, require the Trust and its subsidiaries to maintain certain minimum ratios of “EBITDA” (earnings before payment or charges of interest, taxes, depreciation, amortization or extraordinary items) as compared to interest expense and total fixed charges. The financial covenants also include consolidated net worth and leverage ratio tests.

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

During the three months ended September 30, 2009, the Trust used $30,600 of the proceeds received in connection with the follow-on common stock offering (see Note 2) to repay the Amended Revolver.

As the Amended Revolver matures on March 30, 2010, the Operating Partnership intends to replace the Amended Revolver prior to the maturity of the existing facility.

Mortgage and construction debt

At September 30, 2009, the Trust had outstanding mortgage and construction indebtedness of $456,710 (excluding unamortized debt premium of $898). $28,908 relates to construction debt that is disclosed below and $231,612 pertains to outstanding mortgage debt that is secured by the underlying student housing properties or leaseholds bearing interest at fixed rates ranging from 4.92% to 6.97%. The remaining $196,190 of the outstanding mortgage indebtedness relates to the $222,000 Master Secured Credit Facility the Trust entered into on December 31, 2008. $49,451of the outstanding amount under the Master Secured Credit Facility bears interest at variable rates based on the 30-day LIBOR plus an applicable margin. The remaining outstanding balance of $146,739 bears interest at a weighted average fixed rate of 6.01%. The Trust accounted for the prepayment of mortgage debt mentioned above as a legal defeasance and recognized a loss on the extinguishment during 2008. During the nine months ended September 30, 2009, the Trust received a refund of defeasance costs resulting in an $830 gain on the extinguishment.

In order to hedge the interest rate risk associated with the variable rate loans under the Master Secured Credit Facility, the Operating Partnership purchased an interest rate cap from the Royal Bank of Canada on December 22, 2008 for $120. The notional amount of the cap is $49,874, the cap will terminate on December 31, 2013 and the cap rate is 7.0% per annum. The Operating Partnership has chosen not to designate the cap as a hedge and will recognize all gains or losses associated with this derivative instrument in earnings. At September 30, 2009 and December 31, 2008, the cap had a value of $319 and $82, respectively, and is classified in other assets in the accompanying condensed consolidated balance sheets.

At September 30, 2009, we had borrowed $10,759 and $9,323 on construction loans with availability of $11,000 and $12,285, respectively, related to the development of a wholly owned student apartment community near Southern Illinois University (Carbondale). The loans bear interest equal to LIBOR plus 110 and 200 basis point margins, respectively, and are interest only through June 14, 2010. Commencing on June 14, 2010, and annually thereafter, a debt service coverage ratio calculated on a rolling 12 months basis, of not less than 1.25 to 1, must be maintained in order to extend the loans until June 28, 2012, with principal and interest being repaid on a monthly basis. The Trust incurred $81 in deferred financing costs in connection with the construction loans in 2008.

At September 30, 2009, the Trust had $8,826 outstanding on a $14,300 construction loan related to the development of a wholly-owned student apartment community at Syracuse University (see Note 7). The loan bears interest equal to

LIBOR plus a 110 basis point margin and is interest only through September 29, 2011. Commencing with the quarter ended June 30, 2011, and annually thereafter, a debt service coverage ratio calculated on a rolling 12 month basis, of not less than 1.25 to 1, must be maintained in order to extend the loan until September 29, 2013, with principal and interest being repaid on a monthly basis.

On March 3, 2008, mortgage debt in the amount of $22,977, secured by the student housing community referred to as University Towers, bearing interest at an effective rate of 5.48%, matured and was repaid by the Trust with additional borrowings on the Amended Revolver. On June 27, 2008, the Trust refinanced the debt with a $25,000, interest only, fixed rate mortgage bearing interest at 5.99% through June 30, 2013. After the initial maturity, the Trust has the option to extend the loan for 12 months with principal and interest equal to LIBOR plus a 250 basis point margin per annum being repaid on a monthly basis. The Trust used the proceeds from the refinancing to pay down the Amended Revolver.

The scheduled maturities of outstanding mortgage and construction indebtedness at September 30, 2009 are as follows:

Fiscal Year Ending		
2009 (3 months ending December 31, 2009)	$	99,469
2010		23,388
2011		12,303
2012		67,939
2013		32,304
Thereafter		221,307
Total		456,710
Unamortized debt premium/discounts		898
Outstanding at September 30, 2009, net of unamortized premiums/discounts	$	457,608

At September 30, 2009, the outstanding mortgage and construction debt had a weighted average interest rate of 5.56% and carried a weighted average term to maturity of 3.9 years.

On November 6, 2009, the Trust utilized $76,000 of cash from the follow-on common stock offering (see Note 2) and borrowed $22,660 on its Amended Revolver to repay $98,660 of mortgage debt that was scheduled to mature in December 2009 (see Note 10).

5. Segments

The Trust defines business segments by their distinct customer base and service provided. The Trust has identified three reportable segments: student housing leasing, development-consulting services and management services. Management evaluates each segment's performance based on pretax income and on net operating income, which is defined as income before depreciation, amortization, impairment losses, interest expense (income), gains (losses) on extinguishment of debt, equity in earnings of unconsolidated entities, and noncontrolling interests. The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies. Intercompany fees are reflected at the contractually stipulated amounts. Discontinued operations are not included in segment reporting as management addresses these items on a corporate level. The following table represents segment information for the nine months ended September 30, 2009 and 2008:

	Nine Months Ended September 30, 2009					Nine Months Ended September 30, 2008				
	Student Housing Leasing	Development Consulting Services	Management Services	Adjustments	Total	Student Housing Leasing	Development Consulting Services	Management Services	Adjustments	Total
Revenues:										
Student housing leasing	$ 81,326	$ —	$ —	$ —	$ 81,326	$ 77,531	$ —	$ —	$ —	$ 77,531

revenue										
Student housing food service revenue	1,636	—	—	—	1,636	1,804	—	—	—	1,804
Other leasing revenue	—	—	—	—	—	6,945	—	—	—	6,945
Third-party development consulting services	—	5,275	—	—	5,275	—	6,224	—	—	6,224
Third-party management services	—	—	2,370	—	2,370	—	—	2,677	—	2,677

	Nine Months Ended September 30, 2009					Nine Months Ended September 30, 2008				
	Student Housing Leasing	Development Consulting Services	Management Services	Adjustments	Total	Student Housing Leasing	Development Consulting Services	Management Services	Adjustments	Total
Intersegment revenues	—	1,128	3,289	(4,417)	—	—	187	3,157	(3,344)	—
Operating expense reimbursements	—	—	—	7,749	7,749	—	—	—	8,192	8,192
Total revenues	82,962	6,403	5,659	3,332	98,356	86,280	6,411	5,834	4,848	103,373
Operating expenses:										
Student housing leasing operations	42,912	—	—	—	42,912	42,726	—	—	—	42,726
Student housing food service operations	1,579	—	—	—	1,579	1,728	—	—	—	1,728
General and administrative	—	2,402	5,488	(96)	7,794	3	2,521	5,476	(277)	7,723
Intersegment expenses	3,289	—	—	(3,289)	—	3,157	—	—	(3,157)	—
Reimbursable operating expenses	—	—	—	7,749	7,749	—	—	—	8,192	8,192
Total operating expenses	47,780	2,402	5,488	4,364	60,034	47,614	2,521	5,476	4,758	60,369
Net operating income	35,182	4,001	171	(1,032)	38,322	38,666	3,890	358	90	43,004
Nonoperating expenses(1)	39,250	(66)	—	—	39,184	39,968	(45)	—	—	39,923
Income (loss) before equity in earnings (losses) of unconsolidated entities, income taxes, redeemable noncontrolling interests and discontinued operations	(4,068)	4,067	171	(1,032)	(862)	(1,302)	3,935	358	90	3,081
Equity in losses of unconsolidated entities	(4)	(2)	—	—	(6)	(221)	(2)	—	—	(223)
Income (loss) before income	$ (4,072)	$ 4,065	$ 171	$ (1,032)	$ (868)	$ (1,523)	$ 3,933	$ 358	$ 90	$ 2,858

taxes, redeemable noncontrolling interests and discontinued operations(2)									
Total segment assets, as of September 30, 2009 and December 31, 2008 (3)	$ 772,419	$ 5,642	$ 4,415	$ —	$ 782,476	$ 760,477	$ 2,381	$ 4,567	$ —	$ 767,425

(1) Nonoperating expenses include interest expense, interest income, gains (losses) on the extinguishment of debt, amortization of deferred financing costs, depreciation, amortization of intangibles and impairment losses.

(2) The following is a reconciliation of the reportable segments' income (loss) before income taxes, redeemable noncontrolling interests and discontinued operations to the Trust's consolidated loss before income taxes, redeemable noncontrolling interests and discontinued operations for the nine months ended September 30:

	2009	2008
Income (loss) before income taxes, redeemable noncontrolling interests and discontinued operations for reportable segments	$ (868)	$ 2,858
Other unallocated corporate expenses	(4,671)	(5,073)
Loss before income taxes, redeemable noncontrolling interests and discontinued operations	$ (5,539)	$ (2,215)

(3) The increase in segment assets related to student housing leasing is primarily related to the development of two wholly owned student apartment communities in Carbondale, IL and Syracuse, NY (see Note 7). The increase in segment assets related to development consulting services is primarily due to a $2,663 increase in operating cash related to the timing of the receipt of project fees, a $335 net increase in receivables for reimbursable project costs related to development projects and a $329 net increase in development fee receivables primarily related to Westchester University of Pennsylvania.

The following table represents segment information for the three months ended September 30, 2009 and 2008:

	Three Months Ended September 30, 2009					Three Months Ended September 30, 2008				
	Student Housing Leasing	Development Consulting Services	Management Services	Adjustments	Total	Student Housing Leasing	Development Consulting Services	Management Services	Adjustments	Total
Revenues:										
Student housing leasing revenue	$ 25,105	$ —	$ —	$ —	$ 25,105	$ 24,587	$ —	$ —	$ —	$ 24,587
Student housing food service revenue	577	—	—	—	577	608	—	—	—	608
Other leasing revenue	—	—	—	—	—	—	—	—	—	—
Third-party development consulting services	—	2,559	—	—	2,559	—	3,216	—	—	3,216
Third-party management services	—	—	738	—	738	—	—	870	—	870
Intersegment revenues	—	80	1,103	(1,183)	—	—	187	1,076	(1,263)	—
Operating expense reimbursements	—	—	—	3,523	3,523	—	—	—	3,052	3,052
Total revenues	25,682	2,639	1,841	2,340	32,502	25,195	3,403	1,946	1,789	32,333
Operating expenses:										
Student housing leasing operations	17,826	—	—	—	17,826	17,695	—	—	—	17,695
Student housing food service operations	566	—	—	—	566	600	—	—	—	600
General and administrative	—	921	1,809	(15)	2,715	—	866	1,897	(76)	2,687
Intersegment expenses	1,103	—	—	(1,103)	—	1,076	—	—	(1,076)	—
Reimbursable operating expenses	—	—	—	3,523	3,523	—	—	—	3,052	3,052
Total operating expenses	19,495	921	1,809	2,405	24,630	19,371	866	1,897	1,900	24,034
Net operating income	6,187	1,718	32	(65)	7,872	5,824	2,537	49	(111)	8,299
Nonoperating expenses(1)	13,454	(24)	—	—	13,430	13,118	(4)	—	—	13,114

Income (loss) before equity in earnings (losses) of unconsolidated entities, income taxes, redeemable noncontrolling interests and discontinued operations	(7,267)	1,742	32	(65)	(5,558)	(7,294)	2,541	49	(111)	(4,815)
Equity in losses of unconsolidated entities	(152)	—	—	—	(152)	(195)	(1)	—	—	(196)
Income (loss) before income taxes, redeemable noncontrolling interests and discontinued operations(2)	$ (7,419)	$ 1,742	$ 32	$ (65)	$ (5,710)	$ (7,489)	$ 2,540	$ 49	$ (111)	$ (5,011)

21

(1) Nonoperating expenses include interest expense, interest income, gains (losses) on extinguishment of debt, amortization of deferred financing costs, depreciation, amortization of intangibles and impairment losses.

(2) The following is a reconciliation of the reportable segments' loss before income taxes, redeemable noncontrolling interests and discontinued operations to the Trust's consolidated loss before income taxes, redeemable noncontrolling interests and discontinued operations for the three months ended September 30:

	2009	2008
Loss before income taxes, redeemable noncontrolling interests and discontinued operations for reportable segments	$ (5,710)	$ (5,011)
Other unallocated corporate expenses	(1,358)	(1,789)
Loss before income taxes, redeemable noncontrolling interests and discontinued operations	$ (7,068)	$ (6,800)

6. Commitments and contingencies

In connection with one of the Trust's student housing portfolio acquisitions in 2005, the Trust became aware of a June 2001 notification from the United States Department of Justice of an on-going investigation regarding possible violations of the American Disabilities Act of 1990 and the Fair Housing Amendments Act of 1988 related to one of its student housing properties. In October 2002, the investigations were delayed for an undetermined period of time and, therefore, have not been fully resolved. Management does not believe the resolution of this matter will result in a material adverse effect on the Trust's consolidated financial condition or results of operations.

The Operating Partnership entered into a letter of credit agreement in conjunction with the closing of the acquisition of a student housing property at the University of Florida. The letter of credit remains outstanding in the amount of $1,500 at September 30, 2009 and is secured by the Amended Revolver.

On May 10, 2006, the Operating Partnership guaranteed $23,200 of construction debt held by University Village-Greensboro LLC ("LLC") in order to receive a 25% ownership stake in the venture with College Park Apartments. The debt matures on May 10, 2011. Construction was completed, and the student housing community was occupied in August 2007. The Operating Partnership has determined that it will not guarantee the debt after the construction loan is refinanced. The debt has an outstanding balance of $23,015 at September 30, 2009. On October 30, 2008, the LLC borrowed an additional $1,200 which matures on November 10, 2009 and has also been guaranteed by the Operating Partnership. In October of 2007, the Operating Partnership entered into a note receivable with the LLC in the amount of $845. The note was interest only through December 31, 2007 and accrued interest at 10% per annum. On January 1, 2008, the entire principal balance was converted to a term loan maturing on January 1, 2028 with principal and interest of 10% per annum being repaid on a monthly basis. On the maturity date, all unpaid principal and interest are due in full. As of September 30, 2009, the note has an outstanding balance of $824 and is subordinated to the construction debt held by the LLC discussed above. The balance is reflected separately in the accompanying condensed consolidated balance sheets. Additionally, the Trust's other investments in unconsolidated entities have outstanding mortgage and construction indebtedness totaling $86,249 at September 30, 2009 that is not guaranteed by the Operating Partnership.

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

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

Under the terms of the University Towers Partnership agreement, so long as the contributing owners of such property hold at least 25% of the University Towers Partnership units, the Trust has agreed to maintain certain minimum amounts of debt on the property to avoid triggering gain to the contributing owners. If the Trust fails to do this, the Trust must repay the contributing owners the amount of taxes they incur.

Under the terms of the purchase agreement with Place, the Trust remains a party to a tax indemnification agreement whereby a payment could be required to be made to the former owner if any of the Place-communities are sold within five years of the purchase date. The contingency expires in January 2011.

The Operating Partnership entered into a letter of credit agreement to the benefit of the lender in conjunction with the termination of the lease with Place on February 1, 2008. The letter of credit remains outstanding in the amount of $500 at September 30, 2009 and is secured by the Amended Revolver.

After being awarded a development consulting contract, the Trust will enter into predevelopment consulting contracts with educational institutions to develop student housing properties on their behalf. The Trust will enter into reimbursement agreements that provide for the Trust to be reimbursed for the predevelopment costs incurred prior to the institution's governing body formally approving the final development contract. At September 30, 2009 and December 31, 2008, the Trust had reimbursable predevelopment costs of $1,288 and $910, respectively, which are reflected in other assets in the accompanying condensed consolidated balance sheets.

The Trust also has various operating lease commitments for corporate office space, furniture and technology equipment which expire at various dates through 2015.