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Interviews & News!

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In A Recession-Proof Industry And With College Enrollments Up In 2008, Education Realty Trust Is Well Positioned Providing On And Off Campus Housing For College Students



Financial
REIT - Residential
(EDR-NYSE)

Education Realty Trust, Inc.

530 Oak Court Drive, Suite 300
Memphis, TN 38117
Phone: 901-259-2500



Paul O. Bower
Chairman, President and CEO

BIO:

Paul O. Bower has served as Chairman of our Board of Directors since July 2004. He is also our Chief Executive Officer and President. Mr. Bower joined our

predecessor, Allen & O'Hara, Inc. ("Allen & O'Hara"), in July 1969, and from 1969 to 1977, he served as Assistant General Manager of Granville Towers (University of North Carolina), General Manager of The Towers (University of Wisconsin) and Summit Hall (West Virginia University), and Regional Director and Branch Manager of Allen & O'Hara's student housing/foodservice group. In 1977, Mr. Bower was promoted to Vice President of the student housing group of Allen & O'Hara's management services department, and he became Senior Vice President of that department in 1979. In 1994, Mr. Bower was named Senior Vice President of Management Contract Development, and in 1997 he was named Executive Vice President of Development. In January 1998, he became President and Chief Executive Officer of Allen & O'Hara. Mr. Bower holds the Certified Property Manager designation conferred by the Institute of Real Estate Management (IREM) and is a member of the Memphis Board of Realtors and the Association of College and University Housing Officers – International. Mr. Bower also serves on the Board of Directors of Youth Villages, a local private nonprofit organization dedicated to helping emotionally and behaviorally troubled children and their families.

Company Profile:

Education Realty Trust, Inc. (NYSE:EDR) is a self-administered, self-managed real estate investment trust that owns, develops and manages high-quality student housing communities throughout the United States. Led by a team with over 200 years of shared industry experience, EDR is one of America's largest

owners and operators of collegiate student housing. Its portfolio includes 69 communities in 21 states with 41,329 owned and managed beds.

Interview conducted by:
Lynn Fosse, Senior Editor
CEOCFOinterviews.com

CEOCFO: Mr. Bower, please tell us about the history of Education Realty Trust.

Mr. Bower: "EDR is a leading owner, developer and manager of student housing communities in the United States. We are a public company coming up on our fourth anniversary next January. We were created from our predecessor company, Allen and O'Hara Inc., which has been in the student housing business since the mid-1960s. We pioneered privatized college housing in the US in the name of Allen and O'Hara, Inc., and did it from the 1960s until 2005 when we thought that it was the right time for us to take the company public. I have been with the Company for just about forty years now."

CEOCFO: Please tell us about your properties, what are you providing and where?

Mr. Bower: "We provide modern well-amenitized housing for undergraduate and graduate college students in both on-campus and off-campus locations. When we started in the 1960s it was primarily dormitory style housing, which for us that meant two-room suites sharing a bath, for four students. That was somewhat revolutionary at that time as traditional dormitories were long hallways with barracks type rooms and bathrooms at the end of the hall. That was college housing up until then. We innovated a new style and

it held up well until the mid-1990s or so when it sort of morphed into apartment style. College students have always desired to have their own apartments and be able to do their own thing with cooking and supervise their own issues. Therefore, college housing today is basically apartments, with private bedrooms, and to the extent possible with private baths. Done in a variety of configurations of two, three and four bedroom units. The predominant unit would be a four-bedroom, four-bath unit. They are built much like a conventional apartment community; all the finishes and structures are very similar to a high-end conventional apartment community. The bedrooms would be a bit smaller just to be able to get the square footage in a reasonable footprint. Most are fully furnished; all the kitchen appliances you would expect in a nice apartment community, with a dishwasher, icemaker, etc. and typically with a washer and dryer in each unit. We also provide services like high-speed internet access, cable TV and in some cases telephone service, however everybody has a cell phone today so that service is sort of going away. There is also lots of parking space required, because it seems like every college student today has a car. Basically for every bed we have a parking space and a few for visitors.”

CEOFCO: Are you affiliated with the colleges?

Mr. Bower: “We conduct our business in a number of different ways. Our “bread and butter” is off campus apartments, built as close to campus as possible, not on university property, and privately owned and managed by us. We earn strong returns for our shareholders this way. We also provide solutions for on campus housing. We can develop properties for the school to own. We can manage properties the school owns. We earn fees from the school in both of these cases. When we are off campus, our relationship with the school primarily involves being a good citizen of the community by having a good reputation with the school’s students. Where we are on campus, we follow the school’s structure

and rules and operate extra-carefully. The latest change in the industry, which has come about in the last year and a half, is for EDR to own a student housing property on campus land leased from the school. This is where privatized housing has been heading for a long time and it finally seems to be catching on. In this case, a university will actually ground lease a site, on their campus for a housing project. We will then build a facility, own and operate the building for the school, and pay a portion of the cash flow as rent. This is the best of all worlds because it gives us the best of all locations and the school is able to save its capital for commitment to areas more directly related to its academic mission. We have a forty year relationship with many colleges and

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universities and can respond to these opportunities from coast to coast.”

CEOFCO: What goes into the decision process of where and when you build?

Mr. Bower: “We have a strong reputation, because of our many years in this industry. We have a sense of what is going on in many state systems of higher education. Our decision-making process looks at the dynamics of enrollment growth, where we run detailed projections of new students, the supply of housing in a market and the barriers to entry. There are a few developers in this business and they will end up around many of the same campuses sooner or later and so the markets do get over built from time to time. However, if enrollment is growing then it is just a matter of time until everybody is satisfied again and there is an opening for more and newer housing.”

CEOFCO: How are you occupancy rates?

Mr. Bower: “Typically, we run about a 95% occupancy starting the school year. Our occupancy for the 2008-2009 school year is somewhat below that due to the impact of three properties where there exists what we believe are temporary supply/demand imbalances.”

CEOFCO: Do you need to do much advertising?

Mr. Bower: “College students follow word-of-mouth as much, or more than, any other group. We strive to run great properties in order to take advantage of this. If you are new to a market or have to reposition a property, you have to do a certain amount of advertising to get awareness, and we do participate in all the university oriented media type things. There is always a student newspaper, so you advertise in it and in media like the sports programs, everything that the college students would encounter. There are also campus radio stations or local TV outlet and the ever-present internet. It is the typical awareness sort of advertising, used to drive traffic to the community. But, the key is to run the property right and generate a reputation so the students have a positive image of it.”

CEOFCO: There are some unique challenges dealing with college students; how do you handle these issues?

Mr. Bower: “We like the energy of a college environment. If you don’t like that then it is not the business to be in. You would have to have a positive feeling for all that goes on. Their schedules are different than other people, they become active later in the day and stay up later at night, so we have to operate in keeping with their time schedule not what we might like it to be. We open up the offices later and keep them open later. We have them open on weekends because that is where a lot of the activity is. Most of our clubhouses are organized so that the residents have access to it 24 hours a day; we want them to be able to use the facilities. We do a lot of organized social, educational and athletic-oriented programming

for the students. Students want a clean, safe place to live, but yet they can get over exuberant sometimes, so at all times, we have to maintain proper control of our properties.

People are concerned about damage to the properties, and our residents are an active group. Some damage is intentional and some accidental, but what we do is inspect the apartments on at least a quarterly basis. We don't inspect them like a policeman inspecting, but we make a point of being in the units at least every quarter changing filters and doing minor maintenance and what have you. We have plenty of reasons to be in our units so we do it as non-intrusive as possible. If we see something that we consider to be damage we fix it immediately. We don't let it just pile up until the summer when the units turnover. If we consider the damage to be the tenants fault, we bill them for the repairs and they pay for it when they pay their rent. If it is normal wear and tear we fix it and that is the end of it. We have to keep the properties up at all times because our lease is a twelve-month leases so the turnover period between a departing tenant and a new tenant is a very short period. It is usually the first two weeks of August and we couldn't possibly paint and shampoo carpets and do all that needs to be done in just two-weeks time if we didn't have a good running start at it."

CEO CFO: What is the financial picture like at the company today?

Mr. Bower: "Student housing is a good business; the positives are it is pretty much recession-proof. Kids still go to college, college enrollments this year will likely be at record numbers. Financial aid is difficult in some cases this year but that doesn't really slow down the market we are targeting. We are appealing to a level of student that is less susceptible to the need for financial aid. Everything from a global business standpoint is very positive. We have a good level of earnings, as measured by our funds from operations and existing available financial capacity to execute our growth plans."

CEO CFO: What is ahead for you at EDR?

Mr. Bower: "The company has to continue to grow and we are growing principally through development activity. We have a couple of projects under construction right now that are for our own account. We announced our first one of the type where we lease land on the campus to build a community at Syracuse University. We hope to have a couple more of those in the near term. Right now, we are getting all our properties open for the 2008/2009 school year. A positive aspect of our business is once the school year starts, we have locked up the business for the next twelve months. We have to do a good job of controlling costs, but our occupancy is such that it doesn't much change for the next twelve months. We will begin again at about the first of the year to lease for the year 2009-2010 cycle. Other than that, we are always looking for joint-venture partners for a variety of situations and for investment opportunities to acquire purpose built student housing properties, or conversion opportunities and for the right situations to develop from the ground up, both on and off campus."

CEO CFO: Do you have a preference on developing from the ground up or acquiring?

Mr. Bower: "Acquiring property is difficult today; buyers and sellers aren't really together yet on pricing. There is a lot of product on the market but sellers are asking too much and buyers like us are being disciplined with respect to not overpaying. Therefore, there is not a lot of acquisition transactions going on now and there hasn't been all of this year. We keep expecting the sellers to be more reasonable, but so far it hasn't happened. Development makes much better financial sense for us and our shareholders and that is where we are spending our energies."

CEO CFO: Why should potential investors be interested and what might people misunderstand about Education Realty Trust?

Mr. Bower: "Our positive attributes start with holding an asset that is somewhat recession proof. The college experience is something that is going to happen to most peoples' children one way or the other no

matter what the economy is doing. Therefore, our basic supply of customers is solid and I think that is a huge advantage over office buildings or retail that go through their cycles. The other thing is that the industry has a long life, in other words if a property is well located in relation to a campus it doesn't lose that advantage; it just gets better as the campus expands. We started in the mid-1960's and we are still involved with the property that we built in 1964. The campus has grown so our location keeps getting better as campus ages, and I don't see any reason for that to stop. Those are positives in the industry. In addition, there are only two public companies in this space, so it is a niche business. Multi-family REITS do well and have their allure to investors, but they don't have those two attributes; the insulation from economic woes of unemployment, recession and inflation. They definitely don't have the location aspects; industries come and go, highways move and neighborhoods change, with a multi-family property you have to consider all of that, at least for the longer term. We don't have to worry about that a whole lot assuming we have the right location to start with. Finally, we have a good level of earnings, as measured by our funds from operations and existing available financial capacity to execute our growth plans."

CEO CFO: Final thoughts, what should people reading this interview remember most about Education Realty Trust?

Mr. Bower: "We have a long history of experience and knowledge about the particular industry we are in. The seven senior executives in our firm have over 200 years of experience in the unique business of housing college students. That is an incredible statistic for any company in any industry. I would like the readers to say, boy those folks have been through just about everything you can go through in a particular business and they know what they are doing."



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