



## COMPANY UPDATE / ESTIMATE CHANGES

### Key Metrics

EDR - NYSE (as of 2/17/2017)	\$40.69
Price Target	NA
52-Week Range	\$38.59 - \$48.87
Shares & Units Outstanding (mm)	73
Market Cap. (\$mm)	\$2,970
3-Mo. Average Daily Volume (000)	NA
Institutional Ownership	99%
Net Debt/Total Market Capital (12/16)	14%
Est 3- Year Dividend Growth Rate	2% - 5%
Dividend	\$1.52
Dividend Yield	3.7%
Interest Coverage Ratio (12/16)	9.0x

### Core FFO Per Share FY 12/31

	2015	2016	Prior 2017E	Curr. 2017E
1Q	\$0.50	\$0.54	\$0.57	\$0.58
2Q	\$0.41	\$0.39	\$0.42	\$0.43
3Q	\$0.30	\$0.26	\$0.35	\$0.34
4Q	\$0.61	\$0.59	\$0.63	\$0.62
Year	\$1.83	\$1.77	\$1.98	\$1.99
P/Core FFO	22.2x	23.0x		20.4x

Quarterly Core FFO may not add up to full year amount based on the impact of equity offerings, rounding, and accounting changes.

### Revenue (\$mm)

	2015	2016	Prior 2017E	Curr. 2017E
1Q	\$64	\$73	\$85	\$86
2Q	\$57	\$65	\$74	\$76
3Q	\$58	\$66	\$80	\$82
4Q	\$76	\$84	\$104	\$106
Year	\$255	\$289	\$342	\$349

Quarterly amounts made not add up to full year amounts based on rounding and the impact of some property income being moved to discontinued operations during the year.

**Company Description:** Education Realty Trust, headquartered in Memphis, Tennessee, is a REIT that owns or manages 87 student housing properties with more than 45,000 beds in 25 states. EDR also develops properties for its own portfolio and third party owners.

## REITs

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## Education Realty Trust

EDR -- NYSE – Neutral -- 3

### Fourth Quarter Results

- **EDR reported fourth quarter Core FFO per share of \$0.59 versus \$0.61 in the year ago period.** This was above our and the consensus estimate.
- **Same community occupancy was down year-over-year.** Same community physical opening occupancy was 95.6% versus 97.6% last year. Same community NOI increased 1.4% on a 1.3% increase in revenue and a 1.1% increase in operating expenses.
- **We are raising our 2017 Core FFO per share estimate by \$0.01 to \$1.99.** Management maintained 2017 Core FFO per share guidance of \$1.90 to \$2.00.
- **We maintain our Neutral rating on EDR.** We believe the shares are fairly valued at this time.

**Note Important Disclosures on Pages 5 - 6.**  
**Note Analyst Certification on Page 5.**

**Additional Discussion**

Student housing leasing revenue for the fourth quarter was \$80.4 million versus \$71.8 million in the same period last year, a 12.1% increase (please see income statement on page 3). Same community occupancy was 95.6% versus 97.6% last year. Same community NOI increased 1.4% in the quarter on a 1.3% increase in revenue and a 1.1% increase in operating expenses.

Net income available to common shareholders was \$14.1 million compared to \$14.8 million in the prior year's fourth quarter. EPS were \$0.19 versus \$0.27 in the year ago period. Core FFO were \$43.2 million compared to \$32.7 million. Core FFO were \$0.59 per share versus \$0.61 per share on a 36.8% increase in shares and units outstanding.

When looking at quarterly results for EDR we focus on Core FFO. Core FFO excludes any gains on the extinguishment of debt and the impact of refinancing, and reorganization charges. Core FFO adds back the straight-line impact of ground rent.

**Leasing** - As of February 14, 2017, the same-community portfolio was 60.3% preleased for the upcoming academic year compared to 59.4% preleases at the same time in 2016. A 2.5% - 3.5% increase in rental rate is projected.

**Developments** - EDR currently has fourteen company owned projects in the pipeline, twelve of which are under construction. The company has three third-party development projects in its pipeline, all of which are under construction. Management is seeing a lot of interest for universities to update/grow their housing supply.

**Acquisitions & Dispositions** - In January, EDR acquired The Retreat at Corvallis, a 1016 bed community pedestrian to Oregon State. This community is made up of one, two, three, four and five bedroom floor plans in both cottages and traditional apartment configurations. The company is currently under contract to purchase a 305 bed community at Auburn University. This transaction is expected to close by the end of the month.

**ATM Program** - EDR completed its previous ATM (at the market) equity program. The company has filed a new ATM program with total authorization of \$500 million.

**Financials** - On December 31, net debt-to-total market capitalization was 13.5%. As of December 31, EDR had \$63 million of debt maturities in 2017 and \$20 million maturing in 2018, respectively.

**Guidance & Estimates** - Management maintained 2017 Core FFO per share guidance of \$1.90 to \$2.00. Same community NOI is projected to grow 2% to 3% with same community revenue growing 2.5% to 3.5% and operating expenses growing 3.0% to 4.0%. Mid-year acquisitions of \$75 million to \$125 million and no disposition activity are included in guidance. Our Core FFO per share estimate is \$1.99.

Education Realty Trust  
Statement of Operations

(In thousands, except per share data)	4Q16	4Q15	% Change
<b>Revenues:</b>			
Student Housing Leasing Revenue	\$80,437	\$71,781	12.1%
Third-party Development Services	636	702	-9.4%
Third-party Management Revenue	1,032	972	6.2%
Operating Expense Reimbursements	2,119	2,065	2.6%
<b>Total Revenue</b>	<b>84,224</b>	<b>75,520</b>	<b>11.5%</b>
<b>Operating Expenses:</b>			
Student Housing Leasing Operations	27,811	25,831	7.7%
Development and Management Services	2,706	3,218	-15.9%
General and Administrative	2,422	2,773	-12.7%
Severance, Development Pursuit and Acquisition Costs	292	47	
Depreciation and Amortization	22,462	18,417	22.0%
Ground Leases	3,633	3,312	9.7%
Reimbursable Operating Expenses	2,119	2,065	2.6%
Other Operating Expense	2,146		
Loss on Asset Impairment	2,500		
<b>Total Operating Expenses</b>	<b>66,091</b>	<b>55,663</b>	<b>18.7%</b>
<b>Operating Income (Loss)</b>	<b>18,133</b>	<b>19,857</b>	<b>-8.7%</b>
<b>Nonoperating Expenses:</b>			
Interest Expense	3,345	6,834	-51.1%
Amortization of Deferred Financing Costs	351	562	-37.5%
Interest Income	(61)	(69)	
Gain on Insurance Settlement			
Loss (Gain) on Extinguishment of Debt		403	
<b>Total Nonoperating Expenses</b>	<b>3,635</b>	<b>7,730</b>	<b>-53.0%</b>
<b>Income (Loss) Before Equity in Earnings of Unconsolidated Entities, Income Taxes, Redeemable Noncontrolling Interest and Dist. Ops</b>	<b>14,498</b>	<b>12,127</b>	<b>19.6%</b>
<b>Equity in Earnings (Losses) of Unconsolidated Entities</b>	<b>289</b>	<b>155</b>	
<b>Income (Loss) before Taxes, Redeemable Noncontrolling Interest &amp; Dist. Ops</b>	<b>14,787</b>	<b>12,282</b>	<b>20.4%</b>
<b>Income Tax Expense (Benefit)</b>	<b>460</b>	<b>22</b>	
<b>Income (Loss) from Continuing Operations Before Redeemable Noncontrolling Interest</b>	<b>14,327</b>	<b>12,260</b>	<b>16.9%</b>
<b>Income (Loss) From Discontinued Operations</b>			
<b>Gain on Sale of Collegiate Housing Properties</b>		<b>2,770</b>	
<b>Net Income (Loss)</b>	<b>14,327</b>	<b>15,030</b>	<b>-4.7%</b>
<b>Less: Net Income Attributable to the Noncontrolling Interest</b>	<b>194</b>	<b>257</b>	
<b>Net Income (Loss)</b>	<b>\$14,133</b>	<b>\$14,773</b>	<b>-4.3%</b>
<b>Earnings per share information:</b>			
<b>Income Attributable to Education Realty Trust common shareholders</b>	<b>\$0.19</b>	<b>\$0.27</b>	<b>-29.6%</b>
<b>Weighted-average common shares outstanding - diluted</b>	<b>73,595</b>	<b>53,788</b>	<b>36.8%</b>

Consolidated Statements of Funds From Operations	4Q16	4Q15	% Change
Net Income (Loss) Attributable to Education Realty Trust, Inc.	\$14,133	\$14,773	-4.3%
Gain on Sale of Collegiate Housing Assets		(2,770)	
Gain in Insurance Settlement			
Impairment Losses	2,500		
Real Estate Related Depreciation and Amortization	22,229	18,026	23.3%
Equity Portion of Real Estate Depreciation and Amortization on Equity Investees	676	784	-13.8%
Equity Portion of Loss on Sale of Student Housing Property on Equity Investees			
Depreciation and Amortization of Discontinued Operations			
Noncontrolling Interests	154	261	
<b>Funds From Operations</b>	<b>\$39,692</b>	<b>\$31,074</b>	<b>27.7%</b>
<b>FFO on Participating Developments</b>			
Loss on Extinguishment of Debt		403	
Acquisition Costs	206		
Change in Fair Value of Contingent Consideration Liability	2,146		
Straight-line Adjustment for Ground Leases	1,175	1,187	-1.0%
Reorganization/Severance Costs, net of tax			
<b>Core Funds From Operations</b>	<b>\$43,219</b>	<b>\$32,664</b>	<b>32.3%</b>
<b>FFO per weighted average share/unit</b>	<b>\$0.54</b>	<b>\$0.58</b>	<b>-6.9%</b>
<b>Core FFO per weighted average share/unit</b>	<b>\$0.59</b>	<b>\$0.61</b>	<b>-3.3%</b>
<b>Weighted average shares &amp; units</b>	<b>73,595</b>	<b>53,788</b>	<b>36.8%</b>

Source: Company report

## Valuation

It is somewhat difficult to find a peer group for EDR. American Campus Communities is the only other publically traded pure play student housing REIT. The other REITs that we are using for comparison are multi-family REITs.

Residential REITs	Symbol	Price 2/17/2017	Current Dividend	Yield	Payout Ratio	2015	FFO Per Share 2016E/A	2017E	2 -Year Exp. Avg. Growth	17/16E Growth Rate	Price/FFO 2016E/A	2017E
Mid-America Apartment Communities	MAA	\$99.62	\$3.48	3.5%	62.3%	\$5.69	\$5.59	\$5.85	1.4%	4.7%	17.8x	17.0x
American Campus Communities	ACC	\$49.61	\$1.68	3.4%	74.7%	\$2.36	\$2.25	\$2.32	-0.8%	3.1%	22.0x	21.4x
Apartment Investment & Management	AIV	\$45.01	\$1.44	3.2%	62.6%	\$1.96	\$2.30	\$2.44	12.2%	6.1%	19.6x	18.4x
Camden Property Trust	CPT	\$82.07	\$3.00	3.7%	64.8%	\$3.89	\$4.63	\$4.58	8.9%	-1.1%	17.7x	17.9x
Peer Average		\$69.08	\$2.40	3.4%	66.1%	\$3.48	\$3.69	\$3.80	5.4%	3.2%	19.3x	18.7x
S&P 500	SPX	2,351.16	-	-	-	\$118.23	\$116.83	\$129.74	4.9%	11.1%	20.1x	18.1x
Education Realty Trust	EDR	\$40.69	\$1.52	3.7%	85.9%	\$1.83	\$1.77	\$1.99	4.4%	12.4%	23.0x	20.4x

Note: ACC and MAA are rated Underperform and Neutral by Hilliard Lyons respectively; the rest are not rated.  
EDR's figures are Core FFO not FFO, ACC's figures are FFOM not FFO.  
SPX figures are EPS, not FFO per share.  
ACC is the only other pure play student housing REIT in the group.

Source: HL Estimates, Baseline, and Thomson One.

Based on our 2017 Core FFO per share estimate, EDR is trading above its peer group and at a slight discount to its median 5 year historic forward P/Core FFO multiple. **We rate EDR Neutral at this time.**

## Dividend

To maintain REIT status Education Realty Trust is required to distribute at least 90% of its taxable income to its shareholders each year. EDR's quarterly dividend is \$0.38, or \$1.52 per year. The current dividend yield is 3.7%.

## Suitability

We assign shares of Education Realty Trust a suitability rating of 3 on our scale of 1 - 4 (1=most conservative, 4=most aggressive). Our rating is based on the company's lack of property type diversification offset by what we believe is a strong balance sheet.

## Risks and Considerations

General economic conditions, rising construction cost, weather, inability to receive financing on favorable terms, increased competition, a decline in college enrollment, a change in university housing policy, etc. could have an impact on EDR's Core FFO.

Annual yield is calculated by dividing the distribution amount by the current market price of the security. For US income tax purposes, the Company may classify all or a portion of its distributions as dividends or other non-dividend distributions. Note that for some investors, for US income tax purposes all or a portion of the Company's 2015 dividend or distribution was treated as return of capital and not as "dividend income" as reflected on the IRS Form 1099-Div for the 2015 tax year. The Company generally makes a final determination regarding the proper tax treatment of distributions after calendar year end. We urge each shareholder to consult with his or her own tax advisor to determine the tax consequences of the distributions received, including any state, local or foreign tax considerations.

*Additional information is available upon request.*

**Analyst Certification**

I, Carol L. Kemple, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company(ies) and its (their) securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this report.

**Important Disclosures**

Hilliard Lyons' analysts receive bonus compensation based on Hilliard Lyons' profitability. They do not receive direct payments from investment banking activity.

**Investment Ratings**

**Buy** - We believe the stock has significant total return potential in the coming 12 months.

**Long-term Buy** - We believe the stock is an above average holding in its sector, and expect solid total returns to be realized over a longer time frame than our Buy rated issues, typically 2-3 years.

**Neutral** - We believe the stock is an average holding in its sector, is currently fully valued, and may be used as a source of funds if better opportunities arise.

**Underperform** - We believe the stock is vulnerable to a price set back in the next 12 months.

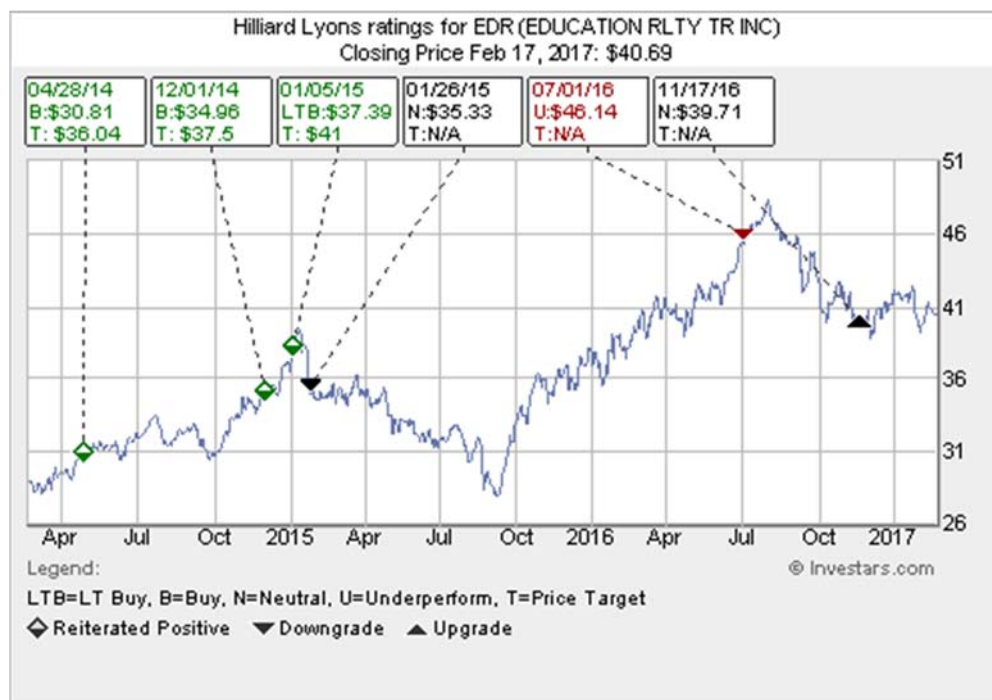
**Suitability Ratings**

**1** - A large cap, core holding with a solid history

**2** - A historically secure company which could be cyclical, has a shorter history than a "1" or is subject to event driven setbacks

**3** - An above average risk/reward ratio could be due to small size, lack of product diversity, sporadic earnings or high leverage

**4** - Speculative, due to small size, inconsistent profitability, erratic revenue, volatility, low trading volume or a narrow customer or product base



Rating	Hilliard Lyons Recommended Issues		Investment Banking Provided in Past 12 Mo.	
	# of Stocks Covered	% of Stocks Covered	Banking	No Banking
Buy	36	30%	17%	83%
Hold/Neutral	76	62%	7%	93%
Sell	10	8%	0%	100%

As of 6 February 2017

### Other Disclosures

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