

GMH Communities Trust  
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**Prospectus**

**34,141,864 Shares**

**GMH COMMUNITIES TRUST**

**Common Shares of Beneficial Interest**

This prospectus relates to up to 34,141,864 common shares of beneficial interest of GMH Communities Trust that the selling shareholders named in this prospectus may offer for sale from time to time. We are registering the offering of the common shares to provide the selling shareholders with the ability to sell their shares in this offering registered under the Securities Act of 1933, but this prospectus does not necessarily mean that the selling shareholders will offer or sell the shares. The selling shareholders named in this prospectus either currently own the common shares they are offering, or may acquire these common shares through the conversion of the units of limited partnership interest in our operating partnership, GMH Communities, LP, into common shares. The selling shareholders may request that these units of limited partnership interest be converted into common shares at any time in accordance with the terms of the partnership agreement for our operating partnership. With respect to certain of the selling shareholders, we are filing the registration statement of which this prospectus is a part pursuant to the terms of registration rights agreements. We will not receive any of the proceeds from the sale of any common shares by the selling shareholders, but will incur expenses in connection with the offering.

The selling shareholders from time to time may offer and sell the shares held by them directly or through agents or broker-dealers on terms to be determined at the time of sale. These sales may be made on the New York Stock Exchange or other exchanges on which our common shares are then traded, in the over-the-counter market, in negotiated transactions or otherwise at prices and at terms then prevailing or at prices related to the then current market prices or at prices otherwise negotiated. To the extent required, the names of any agent or broker-dealer and applicable commissions or discounts and any other required information with respect to any particular offer will be set forth in a prospectus supplement which will accompany this prospectus. A prospectus supplement also may add, update or change information contained in this prospectus.

Our common shares are listed on the New York Stock Exchange under the symbol GCT. On June 1, 2007, the last reported sale price of our common shares on the New York Stock Exchange was \$10.86 per share.

**Investing in our common shares involves a high degree of risk. You should carefully consider the risk factors described under the heading Risk Factors in this prospectus beginning on page 6 before investing in our common shares.**

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.**

**The date of this prospectus is June 8, 2007**

No dealer, salesperson or other individual has been authorized to give any information or to make any representation other than those contained in this prospectus and, if given or made, such information or representations must not be relied upon as having been authorized by us or the underwriters. This prospectus does not constitute an offer to sell or a solicitation of an offer to buy any securities in any jurisdiction in which such an offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so, or to any person to whom it is unlawful to make such offer or solicitation. Neither the delivery of this prospectus nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in our affairs or that information contained herein is correct as of any time subsequent to the date hereof.

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Market data and forecasts used in this prospectus have been obtained from independent industry sources as well as from research reports prepared for other purposes. We have not independently verified the data obtained from these sources. Forecasts and other forward-looking information obtained from these sources are subject to the same qualifications and the additional uncertainties regarding the other forward-looking statements in this prospectus.

## SUMMARY

*The following summary highlights information contained elsewhere in this prospectus. You should read the entire prospectus, including Risk Factors and the financial statements and unaudited pro forma financial information, and related notes, appearing elsewhere in this prospectus, before making a decision to invest in our common shares. Our operating partnership, GMH Communities, LP, commenced operations on July 27, 2004, and, upon completion of our initial public offering in November 2004, GMH Communities Trust, through a wholly owned subsidiary, became the sole general partner of GMH Communities, LP. We currently own and operate all of our assets through our operating partnership. In this prospectus, unless the context suggests otherwise, references to our company, we, us and our mean GMH Communities Trust, including our operating partnership, GMH Communities, LP, as well as our other direct and indirect subsidiaries.*

*The historical operations described in this prospectus prior to the completion of our initial public offering in November 2004 refer to the historical operations of our predecessor entities. We have described our operations in this prospectus as if the historical operations of our predecessor entities were conducted by us.*

### Our Company

We are a self-advised, self-managed, specialty housing company that focuses on providing housing to college and university students residing off-campus and to members of the U.S. military and their families. Through our operating partnership, we own and operate our student housing properties and own equity interests in joint ventures that own our military housing privatization projects. Generally, we provide through our taxable REIT subsidiaries the development, construction, renovation and management services for our military housing privatization projects and property management services for student housing properties owned by others. In addition, through our operating partnership, we provide consulting services with respect to the management of certain student housing properties owned by others, including colleges, universities and other private owners. We are one of the leading providers of housing, lifestyle and community solutions for students and members of the U.S. military and their families.

GMH Communities Trust was formed in May 2004 to continue and expand upon the student and military housing businesses of our predecessor entities and other affiliated entities, collectively referred to as GMH Associates. GMH Associates was founded in 1985 principally to acquire, develop and manage commercial and residential real estate, focusing on student housing. Beginning in 1999, GMH Associates also competed for the award of contracts to develop, construct, renovate and manage housing units for members of the U.S. military and their families, referred to as military housing privatization projects. We seek to capitalize on the highly fragmented student housing market at colleges and universities and the related need for quality and affordable off-campus, privately owned student housing. Focusing on this opportunity, we have, and prior to our formation, GMH Associates had, acquired or entered into joint ventures that acquired student housing properties strategically located near college or university campuses. In addition, we have continued to expand upon the military housing business developed by GMH Associates and to seek the award of additional military housing privatization projects granted by the Department of Defense, or DoD, under the 1996 National Defense Authorization Act.

We elected to be treated as a real estate investment trust, or REIT, under the Internal Revenue Code of 1986, as amended, or the Code, commencing with our taxable year ended December 31, 2004, and intend to continue to qualify as a REIT. We perform certain management and other services relating to student and military housing, which if performed directly by a REIT could adversely affect its qualification as a REIT, through our taxable REIT subsidiaries, GMH Military Housing, LLC and College Park Management TRS, Inc. A taxable REIT subsidiary is an entity, taxed as a corporation, in which a REIT directly or indirectly holds shares and which makes a joint election with the REIT to be treated as a taxable REIT subsidiary of the REIT. Taxable REIT subsidiaries are generally subject to federal income taxation in the same manner as regular corporations and not as REITs. The extent to which a REIT can conduct its operations through a taxable REIT subsidiary is limited by provisions of the Code, which require that (i) dividends from a taxable REIT subsidiary, together with other nonqualifying gross income of the REIT, constitute not more than 25% of the REIT's gross income in any taxable year and (ii) securities issued by taxable REIT subsidiaries represent not more than 20% of the value of the REIT's total assets as of the close of any quarter of a taxable year of the REIT.

As of March 31, 2007, we owned or had ownership interests in 77 student housing properties, containing a total of 14,432 units and 46,696 beds. We also owned seven undeveloped or partially developed parcels of land held for development as student housing properties, and we managed a total of 18 student housing properties owned by others, containing a total of 3,053 units and 9,900 beds, as well as 51 units and 279 beds currently under construction. See also the section below titled *2007 Business Strategy* for a discussion of certain transactions that have or will impact our ownership interests in certain of these student housing properties.

With respect to our military housing segment, as of March 31, 2007, our operating partnership had an ownership interest in, and through various wholly-owned subsidiaries operated, 10 military housing privatization projects, comprising an aggregate of approximately 20,364 end-state housing units on 25 military bases. End-state housing units are the housing units, including units subject to new construction and existing units, whether or not subject to renovation, that are approved for completion and management by the end of the initial development period, or IDP, for the project.



With respect to projects under exclusive negotiations and which are not yet in operation, we have been chosen by the Department of the Army to design, construct and manage two single soldier housing projects, located at Fort Bliss and Fort Stewart. These two projects are among the first of unaccompanied housing privatization awards made by the Army. During the first quarter of 2007, we also announced that we were selected by the Department of the Navy to enter into exclusive negotiations for the design, construction, management and maintenance of the military family housing at 11 Southeast Region Navy bases in five states. The 50-year term of the Navy Southeast project is expected to commence with a six-year IDP that is valued in excess of \$700 million and covering approximately 5,501 end-state housing units. Also during the first quarter of 2007, we announced that we were selected by the Department of the Army to enter into exclusive negotiations for the family housing privatization project at the U.S. Military Academy at West Point, New York, which is expected to have a five-year IDP with project costs valued in excess of \$160 million and cover 628 end-state housing units. Most recently, in May 2007, we announced that we were selected by the Department of the Army to enter into exclusive negotiations for the family housing privatization project at Fort Jackson in Columbia, South Carolina. The Fort Jackson project is expected to have a six-year IDP with project costs valued in excess of \$180 million and cover 990 end-state housing units.

**2007 Business Strategy**

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In December 2006, we announced that our management expected to implement a business strategy beginning in 2007 that would involve the sale, refinancing and/or entrance into joint ventures covering a number of our currently-owned student housing properties. Our management developed this plan primarily in an effort to raise capital proceeds that could be used to repay outstanding indebtedness under our line of credit with Wachovia Bank. In connection with this business strategy, we completed the refinancing of four of our student housing properties in February 2007, for a total of \$90.0 million in new 10-year mortgage debt at a fixed interest rate of 5.6%. We used the net proceeds from this refinancing to repay \$73.6 million in outstanding borrowings under the Wachovia line of credit, which resulted in the replacement of the indebtedness under the Wachovia line of credit that was carrying a variable LIBOR-based interest rate of 7.32% as of the date of the refinancing. Immediately following this transaction, we had approximately \$137.8 million in remaining borrowings outstanding under the Wachovia line of credit.

In addition, on April 13, 2007, we entered into a joint venture transaction with Fidelity Real Estate Group covering a total of six student housing properties. As of April 13, 2007, we had completed the transfer of our 100% interest in five of the six properties into the joint venture entity, which is currently owned 90% by Fidelity and 10% by us. The transfer of our interest in the sixth property to be included in the joint venture is expected to be completed during the second quarter of 2007, upon receipt of lender approval of the joint venture's assumption of the existing mortgage indebtedness on that property. In connection with the closing of the five properties that are part of the joint venture, Fidelity contributed approximately \$19.8 million into the joint venture, and the joint venture simultaneously placed new mortgage indebtedness on the properties in an aggregate amount of \$88.0 million. The new mortgage debt has a five-year term and requires interest-only payments at a fixed rate of approximately 5.52%. We received net proceeds from the joint venture transaction totaling approximately \$56.1 million, and used the proceeds to repay an equal amount of existing indebtedness outstanding under the Wachovia line of credit.

Also, on May 7, 2007, we entered into a revolving note facility, under the terms of a Note Purchase Agreement, with Merrill Lynch, Pierce, Fenner & Smith Incorporated. Under this note facility, our operating partnership may issue up to an aggregate principal amount of \$100.0 million in notes outstanding at any time through April 30, 2010, and, subject to certain conditions, may be increased to up to an additional \$25 million in notes outstanding. On May 7, 2007, our operating partnership issued a note to Merrill Lynch for approximately \$90.7 million, which was used to pay a \$1.0 million commitment fee to Merrill Lynch, closing costs and to repay principal and interest due under, and to terminate, the Wachovia line of credit. The initial note was issued with an interest rate of 7.07% and has a term through April 30, 2010. On June 1, 2007, we redeemed an outstanding principal amount of notes under this facility equal to \$30.5 million, resulting in a remaining balance of \$60.2 million in principal of notes outstanding under the facility. Additional notes may be issued at any time upon notice by our operating partnership, and we will have the ability to repay amounts under outstanding notes and redraw such amounts through the issuance of new notes, provided that the maximum amount of notes outstanding at any time during the term of the Note Purchase Agreement may not exceed an aggregate principal amount of \$100.0 million, or \$125 million to the extent permitted to be increased. Under the terms of the note purchaser agreement, the notes will be issued to Merrill Lynch and may thereafter be transferred to qualified institutional buyers in accordance with Rule 144A of the Securities Act of 1933, as amended. The notes will be administered under the terms of a Trust Indenture with U.S. Bank Trust National Association, serving as trustee of the notes. The notes are issuable at an annual interest of LIBOR plus 1.75%, will require monthly payments of interest only, and are secured solely by the fees and equity preferred returns we receive in connection with our military housing projects currently in operation, as well as those to be received under the Navy Southeast project and West Point project for which we are currently under exclusive negotiations. For additional information regarding the terms of this transaction, see the section of prospectus titled *Our Business and Properties Note Facility*. report.

On May 24, 2007, we completed the sale of three student housing properties to SCI Real Estate Investments, LLC, and received an aggregate of approximately \$27.8 million in net proceeds after the repayment of existing mortgage debt on the properties totaling approximately \$37.0 million. We used approximately \$23.2 million of the proceeds from these completed sales to repay outstanding indebtedness under our note facility through Merrill Lynch, and the remaining \$4.6 million in proceeds are being held in escrow for up to 180 days pending the Company's completion of a 1031 exchange transaction. Pursuant to our agreement with SCI, we have agreed to sell an additional two student housing properties. The timing of completion for the remaining two sale properties under the agreement, as well as one additional property sale to a different buyer, is contingent upon the timing of lender approval of applicable loan assumptions, which is currently expected to occur by the end of the second quarter of 2007 or early in the third quarter of 2007. We expect to use proceeds from the pending sale transactions to redeem outstanding notes under the Trust Indenture with U.S. Bank Trust as discussed above and for general working capital purposes.

### Summary Risk Factors

You should carefully consider the matters discussed in *Risk Factors* prior to deciding whether to invest in our common shares. Some of these risks include:

- if we were to default in the future on any of our mortgage or other indebtedness, the loss of any of our assets securing such debt could adversely affect our business or result in the secured indebtedness under our line of credit being immediately due and payable;
- our internal control over financial reporting may not be sufficient to ensure timely and reliable financial information;
- pending material litigation or the commencement of an investigation by the SEC could adversely affect the Company's financial condition and results of operations;
- we have reported net losses in the past and may continue to do so in the future;
- since our initial public offering, our cash flow from operations has been insufficient to fund our dividend distributions to our shareholders, and it could continue to be so in the future. To the extent our cash flow from operations is insufficient to fund our dividend distributions, we expect to borrow funds or to lower our dividend distributions;
- historically, we have experienced rapid growth in our student housing and military housing businesses and may not be able to adapt our management and operational systems to respond to the acquisition and integration of these properties and investments in privatization projects, or to respond to new properties and projects that we acquire in the future, without unanticipated disruption or expense;
- we expect our real estate investments to continue to be concentrated in student housing and military housing, making us more vulnerable to economic downturns in these housing markets than if our investments were diversified across several industry or property types;
- virtually all of our student housing leases, which typically have a 12-month lease term, become subject to renewal with existing student residents or lease-up with new student residents during July and August of

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each year, which coincides with the start of the academic year at most colleges and universities. If we are unable to renew or lease-up our student housing properties prior to the start of the academic year, our chances of leasing these properties during subsequent months is reduced, and correspondingly, our rents and operating results will be adversely affected;

- certain military bases for which we own and operate a military housing privatization project have been approved for reduction of troops or closure under the Base Realignment and Closure, or BRAC, regulations. Our operating revenues from these projects and the value of our equity interest in the projects may be reduced, and our overall military housing segment revenues could be adversely affected with respect to the military bases under any of these military housing privatization projects;
- as a result of the anticipated closure of the Brunswick Naval Air Station covered by our Navy Northeast Region military housing privatization project, our joint venture with the Department of the Navy that owns the project must modify the terms of the project documents to amend various construction scope and timing requirements that were set prior to the BRAC announcement. Certain initial construction requirements under the original scope have not been met due to construction delays at bases slated for closure, and therefore the joint venture is currently in default under the terms of the trust indenture relating to the bonds issued to finance the project. The exercise of any default remedies by the bondholders relating to this project may adversely impact the operations of the project and our equity investment in the project;
- we rely on key partners and contractors in connection with the construction and development of our military housing privatization projects, and our inability to maintain these relationships or to engage new partners or subcontractors under commercially acceptable terms to us could impair our ability to successfully complete the construction and development of our military housing privatization projects and to obtain new military housing privatization projects;
- if Congress does not approve appropriations each year relating to the provision of the BAH paid to members of the U.S. military, which is the primary source of rental revenues under our military housing privatization projects, or if BAH were eliminated, our operating revenues and projected returns on investments from our military housing privatization projects would be significantly reduced;
- Gary M. Holloway, Sr., our president, chief executive officer and chairman of our board of trustees, may have conflicts of interest as a result of his ownership of an entity that provides services to us and leases space from us;
- our executive officers and certain of our trustees may have conflicts of interest in connection with their ownership of limited partnership units in our operating partnership; and
- one of our trustees may have a conflict of interest as a result of his affiliation with Vornado Realty Trust, one of our largest shareholders on a fully-diluted basis.

### **Selling Shareholders**

This prospectus relates to up to 34,141,864 common shares that the selling shareholders named in this prospectus may offer for sale from time to time. The selling shareholders named in this prospectus either currently own the common shares they are offering, or may acquire these common shares upon the conversion of their units of limited partnership interest in our operating partnership, GMH Communities, LP, into common shares.

### **Use of Proceeds**

We will not receive any proceeds from the sale by the selling shareholders of the common shares being offered by this prospectus. We have agreed, however, to pay various expenses relating to registration of these common shares under applicable securities laws.



**Restrictions on Ownership of Our Common Shares**

Our declaration of trust generally prohibits any shareholder, other than (i) Gary M. Holloway, Sr. and certain persons related to Mr. Holloway, (ii) Steven Roth, who is the chairman and chief executive officer of Vornado Realty Trust,

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certain persons related to him, and (iii) Vornado Realty L.P., which is the operating partnership of Vornado Realty Trust, and certain persons related to Vornado Realty L.P. and certain transferees or assignees of Vornado Realty L.P. or related persons, from beneficially or constructively owning more than 7.1% in value of our outstanding shares or more than 7.1% in value or in number of shares, whichever is more restrictive, of our outstanding common shares. Our declaration of trust provides that a person will not be subject to the ownership limits if such person has provided the board of trustees with such representations and evidence, and has entered into such agreements and undertakings, as are satisfactory to the board of trustees, in its reasonable discretion, to establish that (i) such person is entitled to the look-through treatment with respect to the REIT requirement that not more than 50% of the value of our shares may be owned, directly, indirectly or under applicable attribution rules, by five or fewer individuals (as defined to include certain entities), (ii) such person's direct, indirect or constructive ownership of interests in our direct or indirect tenants will not adversely affect our ability to qualify as a REIT, (iii) such person's direct, indirect or constructive ownership of our shares will not adversely affect our ability to qualify as a REIT and (iv) such person has agreed that shares directly, indirectly or constructively owned by such person in excess of 7.1% of our common shares (as determined by reference to number or value, whichever is more restrictive) or 7.1% of our outstanding shares (as determined by reference to value) will automatically be transferred to a charitable trust as necessary to prevent ownership in excess of those levels from adversely affecting our ability to qualify as a REIT. The exemption described in the preceding sentence will automatically cease to apply in the event that such person is or becomes ineligible for the look-through treatment described in the preceding sentence and will not prevent the application of the provisions in the declaration of trust relating to ownership of shares in excess of the ownership limitations to shares owned by the person granted an exemption where another person treated under applicable attribution rules as owning shares owned by the person granted an exemption owns, directly, indirectly or under the applicable attribution rules, shares in excess of the ownership limitation applicable to such other person. The board of trustees may grant other exemptions from the ownership limitations in certain circumstances. Mr. Holloway and certain related persons are prohibited from owning more than 20% in value of our outstanding shares or more than 20% in value or in number of shares, whichever is more restrictive, of our outstanding common shares, and Steven Roth and certain persons related to him are prohibited from owning more than 8.5% in value of our outstanding shares or more than 8.5% in value or in number of shares, whichever is more restrictive, of our outstanding common shares. See *Description of Shares Restrictions on Ownership and Transfer*.

#### **Dividend Policy**

We intend to distribute to our shareholders each year all or substantially all of our REIT taxable income so as to avoid paying corporate income tax and excise tax on our earnings and to qualify for the tax benefits afforded to REITs under the Code. The actual amount and timing of distributions, if any, will be at the discretion of our board of trustees and will depend upon our actual results of operations and a number of other factors discussed in *Price Range of Common Shares and Dividend Policy*, including:

- the amount of revenues from our owned student housing portfolio and third-party management segment;
- the amount of revenues received in connection with our military housing privatization projects;
- the consulting and management fees received with respect to student housing properties owned by others;
- our debt service obligations; and
- our operating expenses.

We cannot assure you that we will have cash available for distributions at historical levels. See *Risk Factors*.

#### **Our Principal Office and Other Information**

Our principal executive offices are located at 10 Campus Boulevard, Newtown Square, Pennsylvania 19073. Our telephone number is (610) 355-8000. Our Internet address is [www.gmhcommunities.com](http://www.gmhcommunities.com). We make available free of charge on or through our website our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. Our Internet web site and the information contained therein or connected thereto do not constitute a part of this prospectus.

## RISK FACTORS

*An investment in our common shares involves a number of risks. The risks described below represent the material risks you should carefully consider before making an investment decision. If any of these risks occurs, our business, liquidity, financial condition and results of operations could be materially and adversely affected, in which case the price of our common shares could decline significantly and you could lose all or part of your investment.*

### ***Risks Relating to Our Business and Growth Strategy***

**If we were to default in the future on any of our mortgage or other indebtedness, the loss of any of our assets securing such debt could adversely affect our business or result in the secured indebtedness under our current note facility being immediately due and payable.**

A substantial portion of our student housing properties are secured by first mortgages. In addition, as discussed in the section of this prospectus titled *Our Business and Properties Note Facility*, in connection with obtaining our current \$100.0 million revolving note facility with Merrill Lynch, we granted the lender a security interest in the cash flows from our military housing business. Our cash flow may be insufficient to make required payments of principal and interest on our debt. Any default in payment of our indebtedness or violation of any covenants in our loan documents could result in the loss of our investment in the properties or assets securing the debt or, in certain instances, could result in our debt obligations under our note facility being immediately due and payable, to the extent that we are unable to obtain waivers of financial covenants from our lenders or amend the loan documents. Additionally, some of our indebtedness contains cross default provisions. A default under a loan with cross default provisions could result in default on other indebtedness.

**Pending material litigation or the commencement of an investigation by the SEC could adversely affect the Company's financial condition and results of operations.**

There have been several class action complaints filed against the Company and our chief executive officer and former chief financial officer. As of the date of this prospectus, the court has appointed a lead plaintiff, but the class has not yet been certified. The amended complaint filed by the lead plaintiff alleges, among other things, that the defendants committed securities fraud in connection with the offer, purchase and sale of the Company's common shares between May 5, 2005 and March 10, 2006. In addition, the sellers of a portfolio of student housing properties that we acquired in June 2005, who received units of limited partnership interests in our operating partnership in connection with the transaction, have filed suit against us under a similar securities fraud claim. The outcome of this litigation is uncertain, and although the Company will defend itself against the claims made in these lawsuits, no assurance can be given as to the outcome of this litigation. For a discussion of this pending and threatened litigation, see the section of this prospectus titled *Legal Proceedings*. Costs associated with defending this securities litigation, or with the payment of any judgments in or settlements of such litigation, could adversely affect the Company's financial condition and results of operations.

In addition, after we alerted the SEC of our 2006 Audit Committee investigation and related matters, the SEC staff initiated an informal inquiry in connection with these matters. If the SEC ultimately investigates these matters, or any restatements of our financial statements, the investigation could adversely affect the Company's ability to access the capital markets. In addition, the Company could incur significant legal, accounting and other costs in connection with responding to any such investigation, and could be required to pay large civil penalties and fines resulting from any enforcement actions that could be instituted by the SEC. The SEC also could impose other sanctions against us or certain of our executive officers. These additional costs, together with the likely strain on management's time and attention and other of our operational resources in addressing any such investigation, could adversely affect our financial condition and results of operations.

**We have reported net losses in the past and may continue to do so in the future.**

For the second, third and fourth quarters of 2006, and the full year ended December 31, 2006, we reported net losses. With respect to the periods during 2006, these losses were primarily attributable to increased expenses incurred during those periods relating to our previously disclosed Audit Committee special investigation and activities of the Special Committee of the Board of Trustees. We also have experienced increases in expenses relating to our student housing business, and to the extent we are unable to manage those expenses going forward, our operating results from this segment could contribute to additional losses for the Company on a consolidated basis. As referenced in the risk factor above, we also may incur significant legal expenses relating to defending the pending securities litigation against the Company. If our student housing and military housing businesses do not generate sufficient revenue from operations to maintain profitability, we may continue to experience losses from operations.

**Since our initial public offering, our cash flow from operations has been insufficient to fund our dividend distributions to our shareholders, and it could continue to be so in the future. To the extent our cash flow from operations is insufficient to fund our dividend distributions, we expect to borrow funds or to lower our dividend distributions.**

Since completion of our initial public offering, we have used borrowings under our prior credit facilities to pay a portion of dividend distributions to our shareholders. We expect that during 2007 our cash flow from operations will continue to be the primary source of funding for our distributions to shareholders, and that to the extent that we are unable to fund our dividend distributions with cash flow from operations, we may be required to borrow funds in order to make distributions at historical levels. Under our current note facility with Merrill Lynch, we are not required to obtain lender consent to the use of funds borrowed thereunder for payment of any future dividend distributions provided that we maintain certain financial covenants. See the section of this prospectus titled *Our Business and Properties - Line of Credit*. If we seek to borrow funds from another lending source, we may be required to obtain prior consent from our current lenders. To the extent that we do not have sufficient funds from operations to fund our dividend distributions at historical levels, either from cash flows or borrowed funds, we may be required to lower our dividend distributions. Any additional indebtedness that we incur with respect to payment of our dividend distributions also will increase our leverage and could decrease our ability to borrow money for other needs, such as the acquisition or development of student housing properties and investments in military housing privatization projects.

**Our internal control over financial reporting may not be sufficient to ensure timely and reliable financial information.**

As discussed under Item 9A of our Annual Report on Form 10-K for the year ended December 31, 2005, in connection with the completion of the audit of our financial statements for the fiscal year ended December 31, 2005 and an investigation performed by our Audit Committee commenced during the first quarter of 2006, the Company identified and communicated to the Company's independent registered public accounting firm material weaknesses involving internal control over financial reporting and its function. Although management's report on internal control over financial reporting as contained in Item 9A of our Annual Report on Form 10-K for the year ended December 31, 2006 indicates the presence of no material weaknesses in internal control as of December 31, 2006, there can be no assurance that internal control systems will continue to remain effective going forward, or that further remediation efforts will not be required in order to maintain our internal control over financial reporting.

The Company's growth could continue to place stress on its internal control systems, and there can be no assurance that the Company's current control procedures will be adequate. Even after corrective actions have been implemented, the effectiveness of the Company's internal control over financial reporting may be limited by a variety of risks, including faulty human judgment and simple errors, omissions and mistakes, inappropriate management override of procedures, and risk that enhanced controls and procedures may still not be adequate to assure timely and reliable financial information. If the Company fails to have effective internal control over financial reporting in place, it could be unable to provide timely and reliable financial information.

**We commenced operations through our operating partnership in 2004, have a limited history of operating and owning our student housing properties and military housing privatization projects, and therefore may have difficulty successfully and profitably operating our business.**

We have only recently commenced operations through the acquisition of our student housing properties, investments in military housing privatization projects and agreements to manage student housing for others by our operating partnership in connection with our initial public offering in November 2004 and the related formation transactions at the time of our initial public offering. As a result, we have a limited operating history and limited experience in owning these student housing properties and operating these military housing privatization projects. Furthermore, we acquired most of our student housing properties and investments in military housing privatization projects we own as of the date of this prospectus primarily within the past two years and we have limited operating histories for the properties currently under management. Consequently, our historical operating results and the financial data set forth in this prospectus may not be useful in assessing our likely future performance. We cannot assure you that we will be able to generate sufficient net income from operations to make distributions to our shareholders.

**Historically, we have experienced rapid growth in our student housing and military housing businesses and may not be able to adapt our management and operational systems to respond to the acquisition and integration of these properties and investments in privatization projects, or to respond to new properties and projects that we acquire in the future, without unanticipated disruption or expense.**

We acquired all of our student housing properties and investments in military housing privatization projects since July 2004 and expect to continue to acquire additional student housing properties and invest in military housing privatization projects going forward.

As a result of the rapid historical growth of our portfolio, we cannot assure you that we will be able to adapt our management, administrative, accounting and operational systems, or hire or retain sufficient operational staff to integrate these student housing properties and military

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housing privatization projects into our portfolio and manage any future acquisitions of additional student housing properties or military housing privatization projects without operating disruptions or unanticipated costs. Our failure to successfully integrate any future student housing property acquisitions, student housing property management contracts or military housing privatization projects into our portfolio could have a material adverse effect on our results of operations and financial condition and our ability to make distributions to our shareholders.

**We expect our real estate investments to continue to be concentrated in student housing and military housing, making us more vulnerable to economic downturns in these housing markets than if our investments were diversified across several industry or property types.**

We elected to be treated as a REIT for federal income tax purposes in connection with the filing of our tax return for the taxable year ended December 31, 2004, and we expect to continue to qualify as a REIT in the future. Accordingly, we will invest primarily in real estate. We intend to acquire, manage, and to a lesser extent, develop student housing properties,

and to develop, construct, renovate and manage military housing properties. We are subject to risks inherent in concentrating investments in real estate. The risks resulting from a lack of diversification become even greater as a result of our business strategy to invest primarily in student and military housing properties. A downturn in the student or military housing markets could negatively affect our ability to lease our properties to new student residents and our ability to profitably operate our military housing privatization projects or obtain new privatization projects. These adverse effects could be more pronounced than if we diversified our investments outside of real estate or outside of the student and military housing markets.

**If we are unable to successfully perform our obligations under our current student housing property management agreements and current military housing privatization projects, our ability to execute our business plan and our operating results could be adversely affected.**

We cannot assure you that we will be able to successfully manage our student housing properties, or develop, construct, renovate and manage the military housing properties under our privatization projects, or that we will be able to perform our obligations under our current student housing property management agreements or military housing privatization projects. If we are unable to perform, we may be unable to execute our business plan, which could have a material adverse effect on our operating results and financial condition and our ability to make distributions to our shareholders.

**We have agreed with Vornado Realty L.P. that our activities will satisfy certain requirements. If we are unable to satisfy these requirements we could be liable for substantial amounts.**

In connection with the investment by affiliates of Vornado Realty L.P. in our operating partnership and the issuance of a warrant to Vornado Realty L.P., we and our operating partnership have agreed to certain restrictions regarding our activities and assets and the activities and assets of our operating partnership. If we breach any of these agreements, and, as a result, Vornado Realty L.P. fails to maintain its qualification as a REIT or otherwise incurs liability for any tax, penalty or similar charges, we and our operating partnership could be exposed to substantial liability for damages attributable to our breach.

**We are subject to risks associated with the general development of housing properties, including those associated with construction, lease-up, financing, real estate tax exemptions, cost overruns and delays in obtaining necessary approvals, and the risk that we may be unable to meet schedule or performance requirements of our contracts.**

We intend to continue to acquire, manage, and to a lesser extent, develop student housing properties, and to develop, construct, renovate and manage military housing properties under our privatization projects, in accordance with our business plan. We also engage in the development and construction of student housing properties. These activities may include the following risks:

- construction/renovation costs of a property may exceed original estimates, possibly making the development uneconomical;
- occupancy rates and rents at newly completed student housing properties or military housing properties may be insufficient to make the properties profitable to us or to provide sufficient cash flows to fund future development, construction or renovation periods;
- acceptable financing may not be available on favorable terms for development or acquisition of a property;
- leasing of a property may take longer than expected;
- development efforts may be abandoned;
- obtaining real estate tax exemptions acceptable to the DoD; and
- new construction may not be completed on schedule, resulting in increased debt service expense and development costs, delayed leasing and possible termination of our management contracts (particularly with respect to our military housing privatization projects).

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In addition, any new development or management activities, regardless of whether or not they are ultimately successful, typically will require a substantial portion of the time and attention of our management. Development and

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management activities also are subject to risks relating to the inability to obtain, or delays in obtaining, the necessary zoning, land-use, building, occupancy and other required governmental permits and authorizations.

The development and operation of real estate projects entails certain risks, including risks that costs of a project may exceed original estimates, and that the project will fail to conform to building plans, specifications and timetables, which may in turn be affected by strikes, weather, government regulations and other conditions beyond our control. In addition, we may become liable for injuries and accidents occurring on our properties and for environmental liabilities related to our property sites.

**Our management has limited prior experience operating a REIT or a public company. These limitations may impede the ability of our management to execute our business plan successfully and operate our business profitably.**

Our management has limited prior experience in operating a REIT or in managing a publicly owned company, or managing growth at levels that may occur in the future. We cannot assure you that the operating performance of our student housing properties and military housing privatization projects will not decline under our management. We may be unable to hire additional personnel on a timely basis. Therefore, you should be especially cautious in drawing conclusions about the ability of our management team to execute our business plan.

#### *Specific Risks Related to Our Student Housing Business*

**Virtually all of our student housing leases, which typically have a 12-month lease term, become subject to renewal with existing student residents or lease-up with new student residents prior to the start of the academic year at colleges and universities. If we are unable to renew or lease-up our student housing properties prior to the start of the academic year, our chances of leasing these properties during subsequent months is reduced, and correspondingly, our rents and operating results will be adversely affected.**

As a result of the student demand for rental housing during the several months prior to the beginning of the academic year at colleges and universities, which typically lasts from January through July, we generally lease our student housing properties to students under 12-month leases during this period. During this lease-up period, we typically will execute the majority of our leases for student housing units and therefore are dependent on the effectiveness of the marketing efforts of our on-site management teams. Because the terms of these leases will end at, or near the same time, we must re-lease the majority of our student housing units during this limited timeframe. If our marketing and leasing efforts are unsuccessful during this limited lease-up period, we may be unable to lease a substantial majority of our student housing units. Consequently, the failure to adequately market and lease-up our properties could have a material adverse effect on our operating results and financial condition.

**We face significant competition from university-owned on-campus student housing, from other off-campus student housing properties and from traditional multi-family housing located near colleges and universities.**

On-campus student housing has certain advantages over off-campus student housing in terms of physical proximity to the university campus and integration of on-campus facilities into the academic community. Colleges and universities can generally avoid real estate taxes and borrow funds at lower interest rates than we and other private owners and operators can.

Currently, the off-campus student housing industry is fragmented with no participant holding a significant market share. We also compete with national and regional owner-operators of off-campus student housing in a number of markets, as well as with smaller local owner-operators. Our properties often compete directly with a number of student housing complexes that are located near or in the same general vicinity of many of our properties. These competing student housing complexes may be newer than our properties, located closer to campus, charge less rent, possess more attractive amenities or offer more services or shorter terms or more flexible leases.

Rental income at a particular property could also be affected by a number of other factors, including the construction of new on-campus and off-campus residences, increases or decreases in the general levels of rents for housing in competing communities, increases or decreases in the number of students enrolled at one or more of the colleges or universities in the property's market and other general economic conditions.

We believe that a number of other large national companies with substantial financial and marketing resources may be potential entrants in the student housing business. The entry of one or more of these companies could increase competition for students and for the acquisition, development and management of other student housing properties.



**Our student housing operations may be adversely affected by changing university admission and housing policies and our inability to maintain relationships with local colleges and universities.**

A change in university admission policies could adversely affect our ability to lease our student housing properties. For example, if a university reduces the number of student admissions or requires that a certain class of students (e.g., freshmen) live in a university-owned facility, the demand for beds at our properties may be reduced and our occupancy rates may decline. We may be unable to modify our marketing efforts to compensate for a change in a college's or university's admission policy prior to the commencement of the annual lease-up period or any additional marketing efforts may be unsuccessful.

In addition, our ability to successfully lease our student housing properties depends on a number of factors, including maintaining good relationships with college and university communities (especially in connection with colleges and universities that refer students to us) and our continued ability to attract student residents to our properties. Many colleges and universities assist their students in the identification of attractive student-friendly off-campus housing through the distribution of off-campus property materials and the recommendation of college- and university-approved off-campus housing properties on their web sites. If colleges and universities change their policies on recommending off-campus student housing to their students, or cease distribution of off-campus student housing marketing materials to their students, our ability to attract student residents and to lease and collect rents on our student housing properties could be adversely affected. Consequently, the failure to maintain relationships with local colleges and universities could have a material adverse effect on our student housing business.

**We may be unable to successfully acquire, develop and manage student housing properties on favorable terms.**

Our future growth within the student housing business is dependent upon our ability to successfully acquire or develop new properties on favorable terms. As we acquire or develop 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 may have characteristics or deficiencies unknown to us at the time of acquisition. During the remainder of 2007, we may seek to acquire or develop new student housing properties solely through joint ventures with third parties. There can be no assurance that future acquisition and development opportunities will be available to us on terms that meet our investment criteria, that we will be able to identify suitable joint venture partners on terms acceptable to us, or that we will be successful in capitalizing on such opportunities. Our ability to capitalize on such opportunities will be largely dependent upon external sources of capital that may not be available to us on favorable terms, or at all.

Our ability to acquire properties on favorable terms and successfully operate them may expose us to the following significant risks:

- potential inability to acquire a desired property because of competition from other real estate investors;
- we may be unable to locate acceptable joint venture partners with whom we would negotiate to acquire and/or develop the properties;
- competition from other potential acquirers may significantly increase a property's purchase price;
- we may be unable to finance our equity portion of an acquisition on favorable terms or at all;
- we may have to incur significant capital expenditures to improve or renovate acquired properties;
- we may be unable to quickly and efficiently integrate new acquisitions, particularly acquisitions of portfolios of properties, into our existing operations;
- market conditions may result in higher than expected vacancy rates and lower than expected rental rates; and
- we may acquire properties subject to liabilities without any recourse, or with only limited recourse, to the sellers, or with liabilities that are unknown to us, such as liabilities for clean-up of undisclosed environmental contamination, claims by tenants, vendors or other persons dealing with the former owners of our properties and claims for indemnification by members, directors, officers and others indemnified by the former owners of our properties.

Our failure to finance property acquisitions on favorable terms, or operate acquired properties to meet our financial expectations, could adversely affect our financial condition and results of operations.

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**The lenders of certain non-recourse mortgage indebtedness that we assume or place on our properties could have recourse against us for the full amounts of their loans under certain circumstances.**

As of December 31, 2006 and March 31, 2007, we had \$1,028.3 million and \$962.7 million, respectively, in aggregate principal amount of mortgage debt secured by our properties. In general, mortgage debt is non-recourse to our subsidiary that owns the property and places the mortgage debt on the property, and will be non-recourse to us. However, the terms of each of the loans to which the mortgage debt relates

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include provisions that enable the lender to have recourse to the borrower generally if the borrower misrepresented certain facts or committed fraud. If one or more of the borrowers under our mortgage indebtedness exercises its rights to recourse against us for the full amount of the mortgage debt outstanding under their loans, our liquidity and financial condition could be adversely affected.

*Specific Risks Related to our Military Housing Business*

**Certain military bases for which we own and operate a military housing privatization project have been approved for reduction of troops or closure under the Base Realignment and Closure, or BRAC, regulations. Our operating revenues from these projects and the value of our equity interest in the projects may be reduced, and our overall military housing segment revenues could be adversely affected with respect to the military bases under any of these military housing privatization projects.**

As part of the DoD's substantial reduction in the size of the U.S. military following the end of the Cold War, the federal government undertook four rounds of BRAC beginning in 1988, and again in 1991, 1993 and 1995. The fifth round of BRAC was initiated in 2004 and was completed on November 9, 2005, when, under current legislation, the final list of additional bases recommended for realignment or closure was approved by both President Bush and Congress. The BRAC law sets out a process that includes specific dates for government action and the creation of an independent commission appointed by the President. By way of background, the DoD released its initial recommendations for BRAC in May 2005, and the BRAC Commission then voted to amend the DoD's initial list on July 19, 2005. Under the BRAC Commission's revisions, several bases were removed from the DoD's list of bases targeted for closure, including the Submarine Base in New London, Connecticut and the Portsmouth Naval Shipyard in Kittery, Maine, both of which are part of our Navy Northeast Region military housing privatization project. In addition, the BRAC Commission also proposed a less significant realignment at the Fort Eustis base under our Fort Eustis/Fort Story project in Newport News, Virginia than was proposed by the DoD. However, the BRAC Commission proposed to close the Naval Air Station in Brunswick, Maine, which had been recommended by the DoD to be realigned. Finally, the BRAC Commission voted to uphold the DoD's recommendation to close the Walter Reed Army Medical Center in Washington, DC. In September 2005, President Bush accepted the BRAC Commission's recommendations in their entirety. On November 9, 2005, the BRAC round was completed when Congress approved the BRAC Commission's recommendations in their entirety.

Under the final BRAC list as compared to the original DoD recommendations, the possible number of affected military housing units covered by our existing projects was reduced from 2,500 to 700 units, which remaining 700 units are located at the Naval Air Station in Brunswick, Maine. We believe that the closure of the Walter Reed Army Medical Center will not result in the loss of housing units, as these housing units are likely to be utilized by personnel who will be relocated from serving at Walter Reed to serving at nearby military medical facilities.

If a base for which we maintain a privatization project is realigned or closed, our main source of tenants, members of the U.S. military and their families, will not continue to require housing at or near the base, resulting in a decreased rental revenue stream. This in turn may jeopardize our ability to collect future fees, and the value of our equity interest in the project could be adversely affected due to a reduction in its scope, to the extent that we are unable to re-lease any vacant units. The military housing privatization initiative had not been undertaken at the time of previous BRAC rounds, and therefore there is no historical information regarding the impact of a base closure on a military housing privatization project. To date, there has been no indication from the DoD or the BRAC Commission that the federal government has factored into its analysis the possible effects that a base closure or realignment resulting from BRAC could have with respect to the outstanding debt financing for a project. In addition, prior BRAC rounds have shown that even once a base is approved for closure or realignment, the actual closing or realignment of the base could take several years to be completed. Accordingly, management currently expects that the closure of the Naval Air Station in Brunswick, Maine will not occur for at least three years. We are unable to determine with any certainty, however, the specific impact, and the timing of any such impact, that base closures and realignments at our projects will have on our military housing operating results, other than the possible cessation or reduction of fees related to the affected bases.

In addition, it is inherent in the nature of military service that members of the military may be deployed and stationed away from a particular base for an extended period of time or permanently be reassigned to another base. As a result of such absences, dependents may move out of military housing facilities resulting in vacant housing units to be managed and re-leased by us. Typical military housing lease agreements, which have a one-year lease term and continue month-to-month thereafter, provide that a military resident may terminate a lease and be released from any further obligations under the lease upon receipt of orders requiring the resident to be deployed or temporarily or permanently stationed away from the base for more than 90 days by providing us with proof of orders and an appropriate letter from the resident's commanding officer. If we are unable to re-lease these vacant units, the management fee revenue derived from the project's rental revenues will decrease, and the project may be unable to be appropriately funded for construction and renovation of

units throughout the term of the project. We also may be unable to receive any other fees that we may have otherwise earned under the project, and the projected, or any, return on our investment in the project. Any such effect could have an adverse effect on our financial condition and results of operations.

If there are significant numbers of base closures, force reductions or troop deployments that affect our existing military housing privatization projects, we may be unable to achieve the anticipated operating revenues to be derived from these projects and our results of operations may be adversely affected.

**As a result of the anticipated closure of the Brunswick Naval Air Station covered by our Navy Northeast Region military housing privatization project, our joint venture with the Department of the Navy that owns the project must modify the terms of the project documents to amend various construction scope and timing requirements that were set prior to the BRAC announcement. Certain initial construction requirements under the original scope have not been met due to construction delays at bases slated for closure, and therefore the joint venture is currently in default under the terms of the trust indenture relating to the bonds issued to finance the project. The exercise of any default remedies by the bondholders relating to this project may adversely impact the operations of the project and our equity investment in the project.**

As a result of the initial BRAC recommendations relating to the Submarine Base in New London, Connecticut, the Portsmouth Naval Shipyard in Kittery, Maine, and the Naval Air Station in Brunswick, Maine, each of which are included in our Navy Northeast Region project, our joint venture with the Navy that owns the project delayed construction of new housing units at these bases throughout 2005 and 2006. Once the final BRAC recommendations as approved by Congress removed the Submarine Base and Naval Shipyard from the closure list, the joint venture re-commenced construction at those two locations but has continued to delay construction at the Brunswick Naval Air Station. The project documents that were executed at the time of award of the project to our joint venture with the Navy did not provide for a reduced scope for the project in the event that bases under the project were targeted for reduction or closure. As a result, the project documents still contemplate that we will complete the original scope of project and contain covenants that require completion of construction of a certain number of housing units at each base included in the project by times that were agreed upon prior to the BRAC announcements. While we are currently working with the Navy to modify the project documents to reduce the scope of the project in light of the closure of the Brunswick Naval Air Station, and the members of the joint venture have provided initial approval of the revised scope for the project, the joint venture may be unable to complete the necessary amendments prior to the date that such construction scope and time requirements are required to be met and cured, and such inability to complete the necessary amendments in time could trigger a default under the project documents. In addition, due to the aforementioned construction delays, the joint venture was unable to meet a requirement to deliver a certain number of new construction housing units under the terms of the trust indenture that covers the bonds originally issued to finance the project. The joint venture was required to provide notice of this anticipated default to the bondholder representative and other related parties under the terms of the trust indenture, and did so in July 2006 and December 2006. As a result of this technical default, the trust indenture provides that a majority of the bondholders or the bond trustee can elect to declare all of the principal of, premium, if any, and interest on the bonds immediately due and payable. Such an acceleration of the bonds could result in the foreclosure on all or a portion of the project assets to the extent that the project's available cash is insufficient to pay the bondholders in full. While the bonds are nonrecourse to us, to the extent that the bondholders are able to foreclose on all or a portion of the project, our future income stream from the project and our initial equity investment in the joint venture would be significantly or completely impaired. There also can be no guarantee that we will be able to complete amendments to the project documents and trust indenture needed to address the reduced scope of the project prior to the triggering of other events of default under the terms of such documents.

**The joint ventures that own our military housing privatization projects have high leverage ratios which could cause us to lose cash flows and our investments in those projects if the joint ventures are unable to pay their debt service obligations.**

Typically, up to 90% of the capitalization of the joint ventures that own our military housing privatization projects is debt, such as through the sale of taxable bonds to the public. These joint ventures generally are not required to be consolidated with our operations, and as a result this indebtedness is not reflected on our balance sheet. As a result of the high leverage ratios of these joint ventures, reductions in their revenues could impair their ability to service their debt. For example, if the BAH paid to members of the U.S. military is reduced, the personnel is reduced at the bases where our projects are located or these bases are closed, the revenue generated by these joint ventures could decrease. In addition, to the extent that any of our projects are restructured, resulting in a significant loss of end-state housing units covered by the project, the revenues generated by the project would be reduced and could materially impair the ability to make payments to bondholders for bonds issued in connection with the project's financing. If any of the joint ventures covering our military housing privatization projects cannot service its indebtedness, we may not be paid with respect to certain projects on our development, construction, renovation and/or management fees, which would adversely affect our operating results. We also



could lose our entire initial equity and any other additional investments in the project, which could adversely affect our financial condition.

**Our ability to earn development, construction/renovation and management fees, including related incentive fees, depends on the joint ventures that own our military housing privatization projects achieving specified operating milestones and thresholds.**

The joint ventures that own our military housing privatization projects derive substantially all of their revenues from the BAH of their tenants. This revenue is then paid out by the joint ventures according to a distribution waterfall plan set forth in the joint ventures governing documents. Other than the standard management fee we earn, which is typically 2% to 3% of the BAH-related project revenues, and other disbursements, such as routine maintenance, utilities, taxes and insurance, no funds are available to be paid out to us until the joint ventures debt service obligations are satisfied. Thereafter, we only earn incentive management fees, preferential and other returns and on-going construction/renovation and development fees if the joint venture achieves operating milestones and thresholds specified in their governing documents, such as maintaining a certain number of end-state housing units online or completing the construction or renovation of a certain number of housing units by certain dates. Due to the inherent inability to predict possible delays in construction or renovation as a result of weather or unknown site conditions (such as environmental or structural concerns), our joint ventures with the military could experience construction/renovation delays that could impact the joint venture's ability to meet deadlines or achieve operating milestones/thresholds. Our joint ventures have historically sought change orders in order to approve certain construction/renovation delays or approve additional draws needed to complete construction/renovation work relating to such delays. These change orders must be approved by the lenders associated with the financing of the project, and there can be no guarantee that the joint venture's change orders will be approved in order to meet the operating milestones/thresholds under the project documents, or at all. Accordingly, we cannot assure you that the joint ventures will achieve these operating milestones and thresholds, or that if the joint ventures achieve these milestones and thresholds, that funds will remain to pay incentive management fees, preferential and other returns and on-going construction/renovation and development fees. If the joint ventures fail to achieve these milestones and thresholds or, if funds are not available to pay incentive management fees, preferential and other returns and on-going construction/renovation and development fees, the operating results of our military housing business could fluctuate significantly over the course of the project and could suffer.

**We rely on key partners and contractors in connection with the construction and development of our military housing privatization projects, and our inability to maintain these relationships or to engage new partners or subcontractors under commercially acceptable terms to us could impair our ability to successfully complete the construction and development of our military housing privatization projects and to obtain new military housing privatization projects.**

We are dependent upon our relationships with partners and subcontractors in connection with the construction, renovation and development of our military housing privatization projects. Particularly, our management team has relationships with Balfour Beatty Construction (formerly known as Centex Construction Company, LLC), The Benham Companies, LLC, and Phelps Development, LLC. Subject to the terms of our agreements with these construction, renovation and design partners and contractors, these parties provide services to those military housing privatization projects in which they are involved. To the extent that we are unable to maintain our relationships with these partners and contractors or to engage new partners and contractors under terms acceptable to us, our ability to complete a project in a timely fashion, or at a profit, may be impaired. If the amount we are required to pay for these services exceeds the amount we have estimated in bidding for military housing privatization projects or other fixed-price work, we could experience losses in the performance of these projects. In addition, if a partner or subcontractor was unable to deliver its services according to our negotiated terms with them for any reason, including the deterioration of its financial condition, another subcontractor would need to be obtained to perform the services, potentially at a higher price. This may result in the significant delay or additional costs associated with performance under our military housing privatization projects, the adverse effect on our operating results through a reduction in the profit to be realized, or the recognition of a loss on a project for which the services were needed. In addition, if we are unable to successfully manage the provision of services by our partners and contractors, we may not be awarded future military housing privatization projects.

**We are subject to the risks associated with conducting business with the federal government, such as the government's discontinuation of federal funding for some or all of its military housing privatization projects and the need to win new military housing privatization projects through a competitive bidding process.**

We are subject to risks associated with conducting business with the federal government. The DoD, pursuant to its authority granted under the 1996 National Defense Authorization Act, has approved, as of March 9, 2007, the award of 78 military housing privatization projects to private owners, and the future award of an additional 41 projects. Any Congressional action to reduce budgetary spending by the DoD could limit the continued funding of these private-sector projects and could limit our ability to obtain additional privatization projects, which would have a material adverse effect on





our business. The risks of conducting business with the federal government also include the risk of civil and criminal fines and the risk of public scrutiny of our performance at high profile sites.

In addition, privatization projects are currently awarded pursuant to a competitive bidding process, which differs procedurally with respect to each U.S. military branch. Generally, after a proposed site has been identified by a military branch for privatization, prospective companies must submit a proposal complying with specified guidelines demonstrating that the company will be able to successfully complete the project in accordance with the government requirements. The project winner is awarded the exclusive right to develop, construct, renovate and manage family housing at a military base throughout the duration of the ground lease, typically for a 50-year period. The competition pursuing privatization projects currently consists of a small, distinguished list of national and international developers, owners and operators of commercial and residential real estate. We cannot predict whether the number of companies that we compete against for the award of privatization projects will increase significantly in the future, or that we will be able to effectively compete against other private owners for projects awarded in the future.

The termination of the DoD's authority to grant privatization projects, the reduction of government funding for such projects and our inability to effectively compete for the award of future projects could have a material adverse effect on our military housing business and, correspondingly, on our operating results and financial condition.

**If Congress does not approve appropriations each year relating to the provision of the BAH paid to members of the U.S. military, which is the primary source of rental revenues under our military housing privatization projects, or if BAH were eliminated, our operating revenues and projected returns on investments from our military housing privatization projects would be significantly reduced.**

Each year Congress must appropriate a budget for BAH for all of the branches of the U.S. military. We cannot assure you that such appropriations will be made in any given year, the appropriation each year will occur on a timely basis, or the amount of BAH appropriated will be sufficient to keep up with escalations in cost of living expenses. Moreover, we cannot assure you that the method of calculation, timing of payment, analysis of comparable market rents, cost of living increases or other issues affecting the amount and receipt of BAH by members of the U.S. military will not change from time to time, with possible material adverse consequences for the amount of operating revenues generated by our military housing privatization projects. The foregoing description of BAH is based on current law and DoD procedures. Congress can change the law and the DoD can revise its procedures at any time. We cannot assure you that such changes will not be made and, if changes are made, such changes may have a material adverse effect on the level of our operating revenues generated by our privatization projects.

**If we are unable to reach definitive agreements regarding the military housing privatization projects that are under exclusive negotiations with the U.S. military or as to which we are participating in a solicitation process, we would be unable to recover any costs incurred during the period of exclusivity or solicitation.**

When we are initially selected for a military housing privatization project through the bidding process, we receive only the right to enter into exclusive negotiations with the applicable U.S. military branch, and the award of the project to us is subject to final approval from the U.S. military branch and Congress. During this exclusivity period, or during a pre-award solicitation period, each of which typically lasts between six months to one year, we will develop and present our plans to develop, construct, renovate and manage the project and may incur significant costs during this process. These costs include, among other things, surveyors, equipment, vehicles, on-site personnel salary and wages, inventory, and office and administrative set-up costs.

We cannot assure you that we will receive final approval from Congress on the award of any projects currently under exclusive negotiations or as to which we are participating in a solicitation process, or that the U.S. military branch will not decide to award the project to a competitor at the end of our exclusive negotiations or the solicitation process. In addition, awards of exclusive negotiations by the U.S. military are subject to protest by bidders who were involved in the solicitation process, but were not ultimately chosen to be awarded exclusive negotiations for the subject project. If we do not receive final approval on the award of the project from the U.S. military branch or Congress or the military branch loses a protest of an award of exclusive negotiations to us, we may be unable to recover all of the costs that we have incurred during the exclusivity period or the solicitation process through our general military housing operations. Our failure to recover costs that we incur in connection with military housing privatization projects that are under exclusive negotiations or as to which we are participating in a solicitation process may cause the operating results of our military housing business to be adversely affected.

*Risks Relating to Our Organization and Structure*

**Our Board of Trustees may authorize the issuance of additional shares that may cause dilution.**

Our declaration of trust authorizes our Board of Trustees, without shareholder approval, to:

- amend the declaration of trust to increase or decrease the aggregate number of shares of beneficial interest or the number of shares of beneficial interest of any class that we have the authority to issue;
- authorize the issuance of additional common or preferred shares, or units of our operating partnership which may be convertible into common shares; and
- classify or reclassify any unissued common shares or preferred shares and to set the preferences, rights and other terms of such classified or reclassified shares, including preferred shares that have preference rights over the common shares with respect to dividends, liquidation, voting and other matters or common shares that have preference rights with respect to voting.

The issuance of additional shares could be substantially dilutive to our existing shareholders.

**Our Board of Trustees may approve the issuance of a class or series of common or preferred shares with terms that may discourage a third party from acquiring us.**

Our Board of Trustees may classify or reclassify any unissued common or preferred shares and establish the preferences and rights (including the right to vote, participate in earnings and convert into common shares) of any such shares. Therefore, our Board of Trustees could authorize the issuance of a class or series of common or preferred shares with terms and conditions which could have the effect of discouraging a takeover or other transaction in which holders of some or a majority of the common shares might receive a premium for their shares over the then current market price of our common shares.

**Our rights and the rights of our shareholders to take action against our trustees and officers are limited, which could limit your recourse in the event of actions taken that are not in your best interests.**

Our declaration of trust authorizes us and our bylaws require us to indemnify and advance expenses to our trustees and officers for actions taken by them in those capacities to the fullest extent permitted by Maryland law. In addition, our declaration of trust limits the liability of our trustees and officers for money damages, except for liability resulting from:

- actual receipt of an improper benefit or profit in money, property or services; or
- a final judgment based upon a finding of active and deliberate dishonesty by the trustee or officer that was material to the cause of action adjudicated.

As a result, we and our shareholders may have more limited rights against our trustees and officers than might otherwise exist.

**Our ownership limitations may restrict business combination opportunities.**

To qualify as a REIT under the Code, no more than 50% of our outstanding shares of beneficial interest may be owned, directly or indirectly, by five or fewer individuals (as defined in the Code to include certain types of entities) during the last half of each taxable year (other than our first REIT taxable year). Our declaration of trust prohibits, subject to certain exceptions, direct or indirect ownership (including by virtue of applicable constructive ownership rules) by any person of more than 7.1% of our outstanding shares (as determined by reference to value) or more than 7.1% of our outstanding common shares (as determined by reference to number or value, whichever is more restrictive), other than (i) Gary M. Holloway, Sr. and certain related persons, who are permitted in the aggregate to own up to 20% of the value of our outstanding shares or up to 20% of the number or value of our outstanding common shares, whichever is more restrictive, (ii) Steven Roth and certain related persons, who are permitted in the aggregate to own up to 8.5% of the value of our outstanding shares or up to 8.5% of the number or value of our common shares, whichever is more restrictive, and (iii) Vornado Realty L.P., certain persons related to Vornado Realty L.P., certain of transferees or assignees of Vornado Realty L.P. or related persons and affiliates of such transferees or assignees, to which no ownership limit applies. Generally, common shares owned by affiliated owners will be aggregated for



purposes of the ownership limitation. The definition of "person" in our declaration of trust is broader than the definition of "individual" that applies under the Code for purposes of the REIT qualification requirement that no more than 50% of our outstanding shares of beneficial interest be owned, directly or indirectly, by five or fewer individuals. As a result, our declaration of trust will prohibit share ownership in some circumstances where the ownership would not cause a violation of the REIT ownership requirement. Any transfer of our common shares that would violate the ownership limitation under our declaration of trust will be null and void, and the intended transferee will acquire no rights in such shares, or such common shares will be designated as "shares-in-trust" and transferred automatically to a trust effective at the close of business on the day before the purported transfer of such shares. The beneficiary of a trust will be one or more charitable organizations named by us. The ownership limitation could have the effect of delaying, deterring or preventing a change in control or other transaction in which holders of common shares might receive a premium for their common shares over the then current market price or which such holders might believe to be otherwise in their best interests. The ownership limitation provisions also may make our common shares an unsuitable investment vehicle for any person seeking to obtain, either alone or with others as a group, ownership of more than 7.1% in value of our outstanding shares or more than 7.1% in number or value, whichever is more restrictive, of our outstanding common shares.

**Our executive officers and certain of our trustees may experience conflicts of interest in connection with their ownership interests in our operating partnership.**

Certain of our executive officers and trustees, including Gary M. Holloway, Sr., may experience conflicts of interest relating to their ownership interests in our operating partnership. With regard to ownership interests in our operating partnership, as of March 31, 2007, Mr. Holloway beneficially owned approximately 24.0% limited partnership interest in our operating partnership and our other executive officers, including Bruce F. Robinson, who is also one of our trustees, collectively owned approximately 1.8% of the limited partnership interests in our operating partnership. Michael D. Fascitelli, also one of our trustees, is the president and a member of the Board of Trustees of Vornado Realty Trust, which, indirectly through its operating partnership and an affiliated entity, owned an aggregate of 7,337,857 units, or approximately 10.1% of the limited partnership interests in our operating partnership, and 2,517,247 of our common shares, or approximately 6.1% of GMH Communities Trust. Conflicts may arise as a result of these persons' ownership interests in, or their affiliates' interests in, our operating partnership to the extent that their interests as limited partners diverge from our interests, particularly with regard to transactions, such as sales of assets or the repayment of indebtedness, that could be in our best interests and our shareholders but may have adverse tax consequences to the limited partners in our operating partnership.

**Gary M. Holloway, Sr. may have conflicts of interest as a result of his ownership of an entity that provides services to us and leases space from us.**

Mr. Holloway owns a 100% equity interest in GMH Capital Partners, LP, an entity that provides property management and real estate brokerage services for office, retail, industrial, multi-family and corporate properties as well as general contracting and construction management services and acquisition, disposition and development services. GMH Capital Partners, LP is not contractually prohibited from competing with us. In addition, GMH Capital Partners, LP leases space in our corporate headquarters, which we acquired in connection with our initial public offering. As a result of the ongoing ownership interests that Mr. Holloway owns in GMH Capital Partners, LP, there may be conflicts of interest with regard to the terms that we enter into pursuant to our lease to GMH Capital Partners, LP. In addition, we may engage GMH Capital Partners, LP to provide certain real estate brokerage services for us in the future.

**Because Gary M. Holloway, Sr. owns a significant number of units in our limited partnership, he may be able to exert substantial influence on our management and operations, which may prevent us from taking actions that may be favorable to our shareholders.**

As of March 31, 2007, Mr. Holloway beneficially owned approximately 24.0% of the outstanding units of limited partnership interest in our operating partnership. If the maximum number of units redeemable for our common shares by Mr. Holloway were actually redeemed, Mr. Holloway would beneficially own approximately 20.0% of our outstanding common shares. Although the terms of our declaration of trust limit Mr. Holloway's ability to redeem his limited partnership interests to up to 20.0% of our outstanding common shares, such an ownership concentration of our shares may adversely affect the trading price of our common shares if investors perceive disadvantages to owning shares in companies with controlling shareholders. If we were to redeem the maximum number of Mr. Holloway's units for common shares and Mr. Holloway were to retain those shares, he would have the ability to exert significant influence over all matters requiring approval of our shareholders, including the election and removal of trustees and any proposed merger, consolidation or sale of substantially all of our assets. In addition, he could influence significantly the management of our business and affairs. This concentration also could have the effect of delaying, deferring or preventing a change of control of us or impeding a

merger or consolidation, takeover or other business combination that could be favorable to you. Further, Mr. Holloway's concentration of ownership in our operating partnership affords him the ability to exert substantial influence over matters, such as a merger, consolidation or sale of substantially all of the assets of our operating partnership, all of which, under certain circumstances, require the consent of limited partners owning more than 50% of the partnership interest of the limited partners (other than those held by us or our subsidiaries).

**One of our trustees may have a conflict of interest as a result of his affiliation with Vornado Realty Trust, one of our largest shareholders on a fully-diluted basis.**

Mr. Fascitelli, one of our trustees, is the president and a member of the Board of Trustees of Vornado Realty Trust. As described elsewhere in this prospectus, our operating partnership was initially formed in July 2004 through a joint venture between entities owned by Mr. Holloway and Vornado Realty L.P., the operating partnership of Vornado Realty Trust. In connection with our formation transaction, we issued a warrant to Vornado Realty L.P., under which Vornado has purchased 6,666,667 units of limited partnership in our operating partnership. On May 2, 2006, the expiration date under the warrant, Vornado received an additional 1,817,247 of our common shares through a net, or cashless, exercise feature of the warrant. Vornado also purchased 700,000 shares in our 2005 follow-on offering of common shares. Vornado CCA Gainesville, LLC, an affiliate of Vornado Realty L.P., also owns 671,190 units of limited partnership interest in our operating partnership, which were issued in connection with the contribution of an interest in a student housing property to our operating partnership at the time of our initial public offering. In addition, we are required to register for resale the common shares issuable upon exercise of the warrant and the other units currently held by Vornado CCA Gainesville, LLC. Under the terms of the warrant, Vornado has the right to designate for election to our Board of Trustees Mr. Fascitelli or such other officer of Vornado who is reasonably acceptable to us, so long as it holds common shares or units of limited partnership interest in our operating partnership acquired under the warrant at an aggregate price of not less than \$10.0 million. Vornado exercised this right in August 2005, and Mr. Fascitelli was elected to serve on our Board of Trustees on August 10, 2005. As of result of the foregoing, Mr. Fascitelli could experience conflicts of interest between his duties to us and our shareholders and his duties to Vornado and its shareholders.

**Some of our executive officers and trustees have other business interests that may hinder their ability to allocate sufficient time to the management of our operations, which could jeopardize our ability to execute our business plan.**

Some of our executive officers and trustees have other business interests that may hinder their ability to spend adequate time on our business. Mr. Holloway retains 100% of the interests in GMH Capital Partners, LP, an entity that we did not acquire in our formation transactions, and several other entities relating to GMH Associates. GMH Capital Partners, LP provides various property management services and real estate brokerage services for office, retail, industrial, multi-family and corporate properties as well as construction management services and acquisition, disposition and development services. Mr. Holloway's employment agreement permits him to continue to provide management and other services to this entity, and the provision of such services may reduce the time Mr. Holloway is able to devote to our business.

**Maryland law may discourage a third party from acquiring us.**

Maryland law provides broad discretion to our Board of Trustees with respect to its duties in considering a change in control of our company, including that our board is subject to no greater level of scrutiny in considering a change in control transaction than with respect to any other act by our Board.

The Maryland Business Combination Act restricts mergers and other business combinations between our company and an interested shareholder. An interested shareholder is defined as any person who is the beneficial owner of 10% or more of the voting power of our common shares and also includes any of our affiliates or associates that, at any time within the two year period prior to the date of a proposed merger or other business combination, was the beneficial owner of 10% or more of our voting power. A person is not an interested shareholder if, prior to the most recent time at which the person would otherwise have become an interested shareholder, our Board of Trustees approved the transaction which otherwise would have resulted in the person becoming an interested shareholder. For a period of five years after the most recent acquisition of shares by an interested shareholder, we may not engage in any merger or other business combination with that interested shareholder or any affiliate of that interested shareholder. After the five year period, any merger or other business combination must be approved by our Board of Trustees and by at least 80% of all the votes entitled to be cast by holders of outstanding voting shares and two-thirds of all the votes entitled to be cast by holders of outstanding voting shares other than the interested shareholder or any affiliate or associate of the interested shareholder unless, among other things, the shareholders (other than the interested shareholder) receive a minimum price for their common shares and the consideration received by those shareholders is in cash or in the same form as previously paid by the interested shareholder for its common shares. Our Board of Trustees has adopted a resolution, reflected in our bylaws, providing that we have opted out of the



Maryland Business Combination Act. However, our Board of Trustees may opt at any time, without the approval of our shareholders, to make the statute applicable to us again. To the extent it applies, the business combination statute could have the effect of discouraging offers from third parties to acquire us and increasing the difficulty of successfully completing this type of offer.

Additionally, the control shares provisions of the MGCL are applicable to us as if we were a corporation. These provisions eliminate the voting rights of shares acquired in quantities so as to constitute control shares, as defined under the MGCL. Our bylaws provide that we are not bound by the control share acquisition statute. However, our Board of Trustees may opt to make the statute applicable to us at any time, and may do so on a retroactive basis.

**We depend on the business relationships and experience of Gary M. Holloway, Sr. and our other executive officers, the loss of whom could threaten our ability to execute our strategies.**

We depend on the services of Gary M. Holloway, Sr., our president, chief executive officer and chairman of our Board of Trustees, to carry out our business strategies. If Mr. Holloway were to leave the Company, it may be more difficult to locate attractive acquisition targets and manage the properties that we acquire. Additionally, as we expand, we will continue to need to attract and retain qualified additional senior executive officers. The loss of the services of any of our senior executive officers, or our inability to recruit and retain qualified personnel in the future, could have a material adverse effect on our business and financial results.

**Certain of our executive officers have agreements that provide them with benefits in the event their employment is terminated by us without cause, by the executive for good reason, or under certain circumstances following a change of control of our company.**

We have entered into employment agreements with each of our executive officers, including Gary M. Holloway, Sr., Bruce F. Robinson, John DeRiggi, Joseph M. Macchione and J. Patrick O Grady that provide them with severance benefits if their employment is terminated by us without cause, by them for good reason (which includes, among other reasons, failure to be elected to the Board with respect to Mr. Holloway's agreement, and any election by us not to renew our agreements with them), or under certain circumstances following a change of control of our company. Certain of these benefits, including the related tax indemnity with respect to the employment agreements for Mr. Holloway and Mr. Robinson, could prevent or deter a change of control of our company that might involve a premium price for our common shares or otherwise be in the best interest of our shareholders.

**Our Board of Trustees may alter our investment policies at any time without shareholder approval, and the alteration of these policies may adversely affect our financial performance.**

Our major policies, including our policies and practices with respect to investments, financing, growth, debt, capitalization, REIT qualification and distributions, are determined by our Board of Trustees. Our Board of Trustees may amend or revise these and other policies from time to time without a vote of our shareholders. Accordingly, our shareholders will have limited control over changes in our policies.

We have set a targeted range for the amount of indebtedness that we incur from time to time. This target ratio may be amended or waived at any time without shareholder approval and without notice to our shareholders. In addition, our declaration of trust and bylaws do not limit the amount of indebtedness that we or our operating partnership may incur. If we become highly leveraged, then the resulting increase in debt service could adversely affect our ability to make payments on our outstanding indebtedness and harm our financial condition.

**Through a wholly owned subsidiary, we are the sole general partner of our operating partnership, and, should the subsidiary be disregarded, we could become liable for the debts and other obligations of our operating partnership beyond the amount of our investment.**

We are the sole general partner of our operating partnership, GMH Communities, LP, through our wholly owned subsidiary, GMH Communities GP Trust, a Delaware statutory trust, and we also owned units of limited partnership interest in our operating partnership equal to approximately 56.0% of the total partnership interests in our operating partnership as of December 31, 2006. If GMH Communities GP Trust were disregarded as the general partner, we would be liable for our operating partnership's debts and other obligations. In such event, if our operating partnership is unable to pay its debts and other obligations, we will be liable for such debts and other obligations beyond the amount of our investment in our operating partnership. These obligations could include unforeseen contingent liabilities.



*Risks Relating to Real Estate Investments*

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

Real estate investments are relatively illiquid. Our ability to quickly sell or exchange any of our student housing properties or military housing privatization projects in response to changes in economic and other conditions will be limited. No assurances can be given that we will recognize full value for any property that we are required to sell for liquidity reasons. Our inability to respond rapidly to changes in the performance of our investments could adversely affect our financial condition and results of operations.

**Our targeted properties may not achieve forecasted results or we may be limited in our ability to finance future acquisitions, which may harm our financial condition and operating results, and we may not be able to make the distributions required to maintain our REIT status.**

Acquisitions and developments entail risks that the properties will fail to perform in accordance with expectations and that estimates of the costs of improvements necessary to acquire, develop and manage properties will prove inaccurate, as well as general investment risks associated with any new real estate investment. We anticipate that acquisitions and developments will largely be financed through externally generated funds such as borrowings under credit facilities and other secured and unsecured debt financing and from issuances of equity securities. Because we must distribute at least 90% of our REIT taxable income, determined without regard to the dividends-paid deduction and by excluding any net capital gain, each year to maintain our qualification as a REIT, our ability to rely upon income from operations or cash flow from operations to finance our growth and acquisition activities will be limited. Accordingly, if we are unable to obtain funds from borrowings or the capital markets to finance our acquisition and development activities, our ability to grow would likely be curtailed, amounts available for distribution to shareholders could be adversely affected and we could be required to reduce distributions, thereby jeopardizing our ability to maintain our status as a REIT.

Newly-developed or newly-renovated properties do not have the operating history that would allow our management to make objective pricing decisions in acquiring these properties. The purchase prices of these properties will be based in part upon projections by management as to the expected operating results of such properties, subjecting us to risks that these properties may not achieve anticipated operating results or may not achieve these results within anticipated time frames. In addition, we have witnessed a compression of capitalization rates for the student housing properties that we are targeting under our investment criteria. During 2006, capitalization rates declined, and may continue to decline in the future. We, therefore, may be unable to purchase student housing properties at attractive capitalization rates.

**If we suffer losses that are not covered by insurance or that are in excess of our insurance coverage limits, we could lose investment capital and anticipated profits.**

We have general liability insurance that provides coverage for bodily injury and property damage to third parties resulting from our ownership of the properties that are leased to, and occupied by, our residents. However, there are certain types of losses, generally of a catastrophic nature, such as earthquakes, floods, hurricanes, wars and acts of terrorism that may be uninsurable or not insurable at a price we can afford. Inflation, changes in building codes and ordinances, environmental considerations and other factors also might make it impracticable to use insurance proceeds to replace a property after it has been damaged or destroyed. Under these circumstances, the insurance proceeds we receive might not be adequate to restore our economic position with respect to the affected property. If any of these or similar events occur, it may reduce our return from the property and the value of our investment.

**Capital expenditures for property renovations may be greater than forecasted and may adversely impact rental payments by our residents and our ability to make distributions to shareholders.**

Properties, particularly those that consist of older structures, have an ongoing need for renovations and other capital improvements, including periodic replacement of furniture, fixtures and equipment. Renovation of properties involves certain risks, including the possibility of environmental problems, construction cost overruns and delays, uncertainties as to market demand or deterioration in market demand after commencement of renovation and the emergence of unanticipated competition from other properties. All of these factors could adversely impact rental payments by our residents, have a material adverse effect on our financial condition and results of operations, and adversely affect our ability to make distributions to our shareholders.

**All of our student housing properties are subject to property taxes, and some of our military housing properties may be subject to property taxes. If these taxes were to be significantly increased by applicable authorities in the future, our operating results and ability to make distributions to our shareholders would be adversely affected.**



Our student housing properties are subject to real and personal property taxes, and some of our military housing properties may be subject to real and personal property taxes, that may increase as property tax rates change and as the properties are assessed or reassessed by taxing authorities. As the owner of the student housing properties and a member of or partner in the joint venture entity that owns the military housing privatization projects that cover military housing properties, we will be responsible, in whole or in part, for payment of the taxes to the government. Increases in property tax rates may adversely affect our operating results and our ability to make expected distributions to our shareholders.

**Our performance and the value of our common shares will be affected by risks associated with the real estate industry.**

Our ability to make expected dividend payments to our shareholders and the value of our common shares depend largely on our ability to generate cash revenues in excess of expenses, debt obligations and capital expenditure requirements. Factors that may adversely affect our ability to generate cash revenues include:

- changes in the national, regional and local economic climate;
- rising interest rates;
- local conditions such as an oversupply of, or a reduction in demand for, student and military housing;
- increased operating costs, including insurance premiums, utilities and real estate taxes;
- attractiveness of our properties to residents;
- costs of complying with changes in governmental regulations; and
- competition from other real estate developers of student housing and companies pursuing the award of future military housing privatization projects.

In addition, periods of economic slowdown or recession, rising interest rates or declining demand for real estate, or the public perception that any of these events may occur, could result in a general decline in rents or an increased incidence of defaults under existing leases, which would adversely affect us.

**As the owner and lessor of real estate, we are subject to risks under environmental laws, the cost of compliance with which, and any violation of which, could materially adversely affect us.**

Our operating expenses could be higher than anticipated due to the cost of complying with existing and future environmental and occupational health and safety laws and regulations. Various environmental laws may impose liability on a current or prior owner or operator of real property for removal or redemption of hazardous or toxic substances. Current or prior owners or operators may also be liable for government fines and damages for injuries to persons, natural resources and adjacent property. These environmental laws often impose liability whether or not the owner or operator knew of, or was responsible for, the presence or disposal of the hazardous or toxic substances. The cost of complying with environmental laws could materially adversely affect amounts available for distribution to our shareholders and could exceed the value of all of our properties. In addition, the presence of hazardous or toxic substances, or the failure of our residents to properly dispose of or remediate such substances, may adversely affect our residents or our ability to use, sell or rent such property or to borrow using such property as collateral which, in turn, could reduce our revenue and our financing ability. We intend to obtain Phase I environmental assessments on any properties we acquire, manage or develop. However, even if the Phase I environmental reports do not reveal any material environmental contamination, it is possible that material environmental liabilities may exist of which we are unaware.

Although the leases for our student housing properties generally will require our student residents to comply with laws and regulations governing their operations, and to indemnify us for certain environmental liabilities that they create, the scope of their obligations may be limited. We cannot assure you that our student residents or their guarantors will be able to fulfill their indemnification obligations. In addition, environmental and occupational health and safety laws constantly are evolving, and changes in laws, regulations or policies, or changes in interpretations of the foregoing, could create liabilities where none exists today.

With regard to our military housing properties, the federal government will not indemnify us for any environmental liability on these properties. As a result, we may be exposed to substantial liability to remove or remediate hazardous or toxic substances, which could materially adversely affect our financial condition and results of operation.

**Future terrorist attacks in the U.S. could harm the demand for and the value of our properties.**

Future terrorist attacks in the U.S., such as the attacks that occurred on September 11, 2001, and other acts of terrorism or war, or threats of the same, could diminish the demand for and the value of our properties. The military bases at

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which we have privatization projects may be terrorist targets. Also, certain of our properties are near universities which contain well-known landmarks and may be perceived as more likely terrorist targets than similar, less recognizable properties. A decrease in demand in our markets would make it difficult for us to renew or re-lease our properties at lease rates equal to or above historical rates.

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

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

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

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

The properties in our portfolio are subject to various other federal, state and local regulatory requirements, such as state and local fire and life safety requirements. If we fail to comply with these various requirements, we might incur governmental fines or private damage awards. If we are not in compliance with existing requirements, or if existing requirements change, we may have to make significant unanticipated expenditures that would materially and adversely affect us.

***Risks Relating to Our Common Shares and this Offering***

**The market price and trading volume of our common shares may be volatile in the future.**

The market price of our common shares may be highly volatile and subject to wide fluctuations in the future. 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 have been unrelated to these companies' operating performances. These broad market fluctuations could reduce the market price of our common shares. Furthermore, our operating results and prospects may be below the expectations of public market analysts and investors or may be lower than those of companies with comparable market capitalizations, which could lead to a material decline in the market price of our common shares. In addition, the trading volume in our common shares may fluctuate and cause significant price variations to occur.

If the market price of our common shares declines significantly, you may be unable to resell your shares at or above the price per share in this offering. We cannot assure you that the market price of our common shares will not fluctuate or decline significantly in the future. Some of the factors that could negatively affect our share price or result in fluctuations in the price or trading volume of our common shares include:

- the likelihood that an active market for our common shares will continue;
- actual or anticipated variations in our operating results;
- changes in our funds from operations or earnings estimates;
- publication of research reports about us or the real estate industry;
- increases in market interest rates may lead purchasers of our common shares to demand a higher dividend rate which, if our distributions do not rise, may mean our share price will fall;
- changes in market valuations of similar companies;

- adverse market reaction to any increased indebtedness we incur in the future;
- additions or departures of key management personnel;
- actions by institutional shareholders;

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- speculation in the press or investment community;
- general market and economic conditions; and
- future offerings of debt securities or preferred shares, which would be senior to our common shares upon liquidation, and additional offerings of equity securities, which would dilute our existing shareholders and may be senior to our common shares for the purposes of dividend distributions, may adversely affect the market price of our common shares.

In the future, we may attempt to increase our capital resources by making offerings of debt or additional offerings of equity securities, including commercial paper, medium-term notes, senior or subordinated notes and series of preferred shares or common shares. Upon our liquidation, holders of our debt securities and preferred shares and lenders with respect to other borrowings will receive a distribution of our available assets prior to the holders of our common shares. Additional equity offerings may dilute the holdings of our existing shareholders or reduce the market price of our common shares, or both. Our preferred shares, if issued, could have a preference on liquidating distributions or a preference on dividend payments that could limit our ability to make a dividend distribution to the holders of our common shares. Because our decision to issue securities in any future offering will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing or nature of our future offerings. Thus, holders of our common shares bear the risk of our future offerings reducing the market price of our common shares and diluting their share holdings in us.

**Common shares eligible for future sale, including the shares covered by this prospectus, may have adverse effects on our share price.**

We cannot predict the effect, if any, of future sales of common shares, including the shares covered by this prospectus, or the availability of shares for future sales, on the market price of our common shares. Sales of substantial amounts of common shares, or the perception that these sales could occur, may adversely affect prevailing market prices for our common shares. Under the terms of our operating partnership agreement, the common shares eligible for issuance upon redemption of units of limited partnership interest in our operating partnership, including units that we may issue to third parties in the future, are required to be registered within nine months following the date of initial issuance of such units. In addition, we filed a registration statement with respect to the 2,000,000 common shares authorized for issuance under our Equity Incentive Plan in connection with the grant of restricted common share awards, option grants or other equity-based awards authorized by the Compensation Committee of our Board of Trustees. We also may issue from time to time additional common shares or units of limited partnership interest in our operating partnership in connection with the acquisition of properties and we may grant additional demand or piggyback registration rights in connection with these issuances. Sales of substantial amounts of common shares or the perception that these sales could occur may adversely effect the prevailing market price for our common shares. In addition, the sale of these shares could impair our ability to raise capital through a sale of additional equity securities.

**The market value of our common shares could decrease based on our performance and market perception and conditions.**

The market value of our common shares may be based primarily upon the market's perception of our growth potential and current and future cash dividends, and may be secondarily based upon the market value of our underlying assets. We expect the market price of our common shares to be influenced by the dividend on our common shares relative to market interest rates. Rising interest rates may lead potential buyers of our common shares to expect a higher dividend rate, which would adversely affect the market price of our common shares. In addition, rising interest rates would result in increased interest expense on our variable rate debt and adversely affect cash flow and our ability to service our indebtedness and make distributions to our shareholders.

***Tax Risks Associated with Our Status as a REIT***

**If we fail to qualify for or lose our tax status as a REIT, we would be subject to significant adverse consequences and the value of our common shares may decline.**

We intend to continue to operate in a manner that will allow us to continue to qualify as a REIT for federal income tax purposes under the Code. We elected to be taxed as a REIT upon the filing of our tax return for the taxable year ended December 31, 2004. Our qualification as a REIT depends, and will continue to depend, on our ability to meet various requirements concerning, among other things, the ownership of our outstanding common shares, the nature of our assets, the sources of our income and the amount of our distributions to our shareholders. The REIT qualification requirements are extremely complex, and the interpretations of the federal income tax laws governing qualification as a REIT are limited. Accordingly, there is no assurance that we will be successful in operating so as to qualify as a REIT. At any time, new laws, regulations, interpretations or court decisions may change the federal tax laws relating to, or the federal income tax





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consequences of, qualification as a REIT. It is possible that future economic, market, legal, tax or other considerations may cause our Board of Trustees to revoke the REIT election, which it may do without shareholder approval.

If we revoke, lose or fail to achieve our REIT status, we will face serious tax consequences that will substantially reduce the funds available for distribution because:

- we would not be allowed a deduction for distributions to shareholders in computing our taxable income;
- we would be subject to federal income tax at regular corporate rates, and we might need to borrow money or sell assets in order to pay any such tax;
- 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 statutory provisions, we also would be disqualified from taxation as a REIT for the four taxable years following the year during which we ceased to qualify.

In addition, if we fail to qualify as a REIT, we will not be required to pay dividends to shareholders, and all dividends to shareholders will be subject to tax to the extent of our current and accumulated earnings and profits. As a result of all of these factors, a failure to achieve, or a loss or revocation of our REIT status could have a material adverse effect on our financial condition and results of operations and would adversely affect the value of our common shares.

In addition, in circumstances where we fail to qualify as a REIT, it is likely that we will also have failed to comply with the restrictions on our activities and those of the operating partnership that we agreed to with Vornado Realty L.P., in which case we would also be liable for any damages incurred by Vornado Realty L.P., certain of its affiliates and its transferees and assignees, together with certain of their affiliates, as a result of such failure.

### **To maintain our REIT status, we may be forced to borrow funds on a short-term basis during unfavorable market conditions.**

In order to maintain our qualification as a REIT, we are required under the Code to distribute annually at least 90% of our REIT taxable income, determined without regard to the dividends-paid deduction and excluding any net capital gain. In addition, we will be subject to income tax at regular corporate rates to the extent that we distribute less than 100% of our net taxable income, including any net capital gains. Because of these distribution requirements, we may not be able to fund future capital needs, including any necessary acquisition financing, from operating cash flow. Consequently, we will be compelled to rely on third party sources to fund our capital needs. We may not be able to obtain this financing on favorable terms or at all. Any additional indebtedness that we incur will increase our leverage. Our access to third party sources of 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 dividends; and
- the price of our common shares.

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

### **Failure to make required distributions would subject us to tax.**

In order to qualify as a REIT, each year we must distribute to our shareholders at least 90% of our REIT taxable income, determined without regard to the dividends-paid deduction and by excluding any net capital gain. To the extent that we satisfy the distribution requirement, but

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distribute less than 100% of our taxable income, we will be subject to federal corporate income tax on our undistributed income. In addition, we will incur a 4% nondeductible excise tax on the amount, if any, by which our distributions in any year are less than the sum of:

- 85% of our ordinary income for that year;
- 95% of our capital gain net income for that year; and
- 100% of our undistributed taxable income from prior years.

We intend to pay out our income to our shareholders in a manner that satisfies the distribution requirement and avoids corporate income tax and the 4% nondeductible excise tax. We may be required to make distributions to shareholders at disadvantageous times or when we do not have funds readily available for distribution. Differences in timing between the

recognition of income and the related cash receipts or the effect of required debt amortization payments could require us to borrow money or sell assets to pay out enough of our taxable income to satisfy the distribution requirement and to avoid corporate income tax and the 4% nondeductible excise tax in a particular year. In the future, we may borrow to pay distributions to our shareholders and the limited partners of our operating partnership. Any funds that we borrow would subject us to interest rate and other market risks.

**Complying with REIT requirements may cause us to forgo otherwise attractive opportunities.**

To qualify as a REIT for federal income tax purposes, we must continually satisfy tests concerning, among other things, the sources of our income, the nature and diversification of our assets, the amounts we distribute to our shareholders and the ownership of our shares. As a result, we may be required to forgo attractive business or investment opportunities in order to meet these tests. Thus, compliance with the REIT requirements may hinder our ability to operate solely on the basis of maximizing profits.

**We may be subject to adverse legislative or regulatory tax changes that could reduce the market price of our common shares.**

At any time, the federal income tax laws or regulations governing REITs or the administrative interpretations of those laws or regulations may be amended. Any of those new laws or interpretations may take effect retroactively and could adversely affect us or you as a shareholder. Effective for taxable years beginning after December 31, 2002, the Jobs and Growth Tax Relief Reconciliation Act of 2003, which we refer to as the Jobs and Growth Tax Act, generally reduced the maximum rate of tax applicable to most domestic noncorporate taxpayers on dividend income from regular C corporations to 15%. This reduces substantially the so-called double taxation (that is, taxation at both the corporate and shareholder levels) that has generally applied to corporations that are not taxed as REITs. Generally, dividends from REITs will not qualify for the dividend tax reduction because, as a result of the dividends paid deduction to which REITs are entitled, REITs generally do not pay corporate level tax on income that they distribute to shareholders. The implementation of the Jobs and Growth Tax Act may cause domestic noncorporate investors to view stocks of non-REIT corporations as more attractive relative to shares of REITs than was the case previously. We cannot predict what impact this legislation may have on the value of our common shares. The Tax Increase Prevention and Reconciliation Act of 2005 extended the 2003 Act's sunset date from December 31, 2008 to December 31, 2010.

**The income earned by our taxable REIT subsidiaries will be subject to federal income tax.**

We own active taxable REIT subsidiaries that earn income that, if earned by us outside of a taxable REIT subsidiary, would jeopardize our status as a REIT. For example, our taxable REIT subsidiaries earn fees from developing, constructing, renovating and managing military housing properties and providing management services to certain third party owners of student housing, as well as fees for providing certain noncustomary services for our student housing properties, that would not be qualifying income for purposes of the REIT income tests. A taxable REIT subsidiary is taxed as a regular C corporation. The income from the activities described above and other income earned by our taxable REIT subsidiaries is therefore subject to a corporate level tax, notwithstanding that we qualify as a REIT.

**We may not conduct all of our third party student housing management business through a taxable REIT subsidiary, which could jeopardize our ability to comply with one of the REIT gross income requirements.**

In general, at least 95% of our gross income for each taxable year must consist of income that is qualifying income for purposes of the 75% REIT gross income test, other types of interest and dividends, gain from the sale or disposition of shares or securities, or any combination of these. Fees that we earn from providing property management services to third party owners of student housing properties do not constitute qualifying income for purposes of the 95% REIT gross income test. We conduct all (or as nearly all as possible) of our third party student housing property management business through a taxable REIT subsidiary. The fees we earn from that business other than through a taxable REIT subsidiary, together with all other income that does not constitute qualifying income under the 95% gross income test, cannot exceed 5% of our total gross income. If we fail to manage our business in a manner that allows us to satisfy the 95% REIT gross income test, the portion of income associated with the amount in excess of this 95% threshold would be taxed at 100%, and we could lose our REIT qualification which would, among other things, cause all of our earnings to be subject to federal income tax and would reduce our cash available for distributions to shareholders.

**To maintain our REIT status, we will be required to comply with a number of requirements relating to the relative values of our assets, and we may be required to limit activities conducted through a taxable REIT subsidiary.**

As a REIT we will be required to satisfy, as of the close of each quarter of each of our taxable years, a number of requirements relating to the relative values of our assets, including requirements that not more than 25% of the value of our total assets be represented by assets other than real estate assets, cash and cash items and government securities and that not more than 20% of the value of our total assets be represented by securities of taxable REIT subsidiaries. We intend to monitor our compliance with the various asset test requirements. As a number of these requirements are based on value, however, it is possible that the IRS could successfully argue for a value of our nonqualifying assets that was such that we would fail to satisfy a REIT asset requirement. In such circumstances, we could fail to qualify as a REIT for the taxable year of such failure and the following four taxable years.

**To maintain our status as a REIT, no more than 20% of the value of our total assets may consist of the securities of our taxable REIT subsidiaries, such as GMH Military Housing, LLC and College Park Management TRS, Inc. Certain of our activities, such as development, construction, renovation, and management services, must be conducted through a taxable REIT subsidiary in order for us to maintain our REIT status. In addition, certain non-customary services generally must be provided by a taxable REIT subsidiary or an independent contractor from which we do not derive any income. If the revenues from such activities create a risk that the value of our interest in our taxable REIT subsidiaries, based on revenues or otherwise, approach the 20% threshold, we will be forced, in order to maintain our REIT status, to curtail such activities or take other steps to remain under the 20% threshold. Since our formation transactions, the development, construction, renovation, and management services provided to our military housing privatization projects and the management services provided to certain third party owners of student housing have been conducted through taxable REIT subsidiaries. Consequently, income earned by these taxable REIT subsidiaries is subject to corporate income tax.**

**We may be subject to tax if our taxable REIT subsidiaries provide services to our tenants other than on an arm's length basis.**

If our taxable REIT subsidiaries provide services to our tenants for other than an arm's length charge (payable from the tenants or from us), we would be subject to a 100% tax on the difference between the amount in fact derived by the taxable REIT subsidiary and the arm's length charge. In addition, if our taxable REIT subsidiaries pay more than an arm's length charge to our operating partnership, GMH Communities Trust or any of their affiliates for services or overhead provided to the taxable REIT subsidiaries, we would be subject to a 100% tax on the difference between the amount in fact paid by the taxable REIT subsidiary and the arm's length charge.

**CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS**

We make forward-looking statements in this prospectus that are subject to risks and uncertainties. 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, operating or financial performance, strategic plans and objectives, or regulatory or competitive environments. Statements regarding the following subjects are forward-looking by their nature:

- our ability to successfully implement our current business strategy, including our ability to acquire and manage student housing properties and to secure and operate military housing privatization projects;
- our projected operating results and financial condition;
- completion of any of our targeted acquisitions or development projects, sales of assets, refinancings or joint venture transactions within our expected timeframe or at all;
- our ability to obtain future financing arrangements on terms acceptable to us, or at all;
- estimates relating to, and our ability to pay, future dividends;
- our ability to qualify as a REIT for federal income tax purposes;
- our understanding of our competition, market opportunities and trends;
- projected timing and amounts of capital expenditures; and
- the impact of technology on our properties, operations and business.

The forward-looking statements are based on our beliefs, assumptions and expectations of our future performance, taking into account all information currently available to us. These beliefs, assumptions and expectations can change as a result of many possible events or factors, not all of which are known to us. If a change occurs, our business, financial condition, liquidity and results of operations may vary materially from those expressed in our forward-looking statements. Factors that could cause actual results to differ materially from our management's current expectations include, but are not limited to:

- the factors referenced in the sections of this prospectus titled **Our Business**, **Risk Factors** and **Management's Discussion and Analysis of Financial Condition and Results of Operations** ;
- changes in our business strategy, including acquisition, sales, and development activities;
- availability, terms and deployment of capital, including equity and debt financing;
- availability of qualified and/or sufficient personnel, including, but not limited, within our accounting staff;
- failure to effectively remediate any deficiencies or material weaknesses in our disclosure controls and procedures and internal control over financial reporting, or failure to identify additional material weaknesses and deficiencies

in our disclosure controls and procedures and internal control over financial reporting that could occur in the future;

- the adverse effects of pending litigation or any investigation of the Company by the SEC;
- unanticipated costs associated with the acquisition and integration of our student housing property acquisitions and development projects, and military housing privatization projects;
- the effects of military base realignment and closures, or deployments, on installations covered by our military housing privatization projects;
- high leverage on the entities that own the military housing privatization projects;
- reductions in government military spending;
- changes in student population enrollment at colleges and universities or adverse trends in the off-campus student housing market;
- changes in the student and military housing industry, interest rates or the general economy;
- changes in local real estate conditions (including changes in rental rates and the number of competing properties) and the degree and nature of our competition;
- failure to lease unoccupied space in accordance with management's projections;
- potential liability under environmental or other laws; and
- the existence of complex regulations relating to our status as a REIT and the adverse consequences of our failure to qualify as a REIT.

When we use the words believe, expect, may, potential, anticipate, estimate, plan, will, could, intend or similar expressions, we are making forward-looking statements. You should not place undue reliance on these forward-looking statements. We are not obligated to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except to the extent otherwise required by law.

## THE OFFERING

Of the 34,141,864 common shares being offered by the selling shareholders named in this prospectus, 9,855,104 of the shares are being offered by Vornado Realty Trust, or Vornado, or its affiliates. Of these common shares being offered by Vornado, (i) 2,517,247 common shares are held by Vornado Investments L.L.C., representing 1,817,247 common shares that were issued upon exercise of a warrant granted in connection with our initial public offering and 700,000 common shares that were purchased in connection with the Company's follow-on offering of common shares in October 2005, (ii) 6,666,667 common shares are issuable to Vornado Realty L.P. upon the conversion of an equal number of units of limited partnership interest in our operating partnership that were acquired in connection with our initial public offering, and (iii) 671,190 of these common shares are issuable to Vornado CCA Gainesville L.L.C., an affiliate of Vornado, upon the conversion of an equal number of units of limited partnership interest in our operating partnership that were issued to that entity in connection with the contribution of its interests in a student housing property to our operating partnership upon completion of our initial public offering.

Another 2,583,334 of the common shares being offered under this prospectus are issuable upon the conversion of an equal number of limited partnership interests in our operating partnership that were issued to FW Military Housing LLC upon completion of our initial public offering in exchange for its contribution of interests in a military housing privatization project.

In addition, 19,763,144 of the common shares covered by this prospectus are being offered by current or former employees of the Company or entities wholly-owned by Gary M. Holloway, Sr., our chairman, president and chief executive officer. All of these shares are issuable upon the conversion of limited partnership interests in our operating partnership that were issued upon completion of our initial public offering in November 2004. Of these shares, 16,988,829 shares are being offered by Mr. Holloway or entities wholly-owned by Mr. Holloway, and are issuable upon redemption of limited partnership interests that were acquired in exchange for Mr. Holloway's contribution of various assets to our operating partnership upon completion of our initial public offering; 2,649,315 are being offered by current or former employees of the Company; and 125,000 common shares are being offered by Gary M. Holloway, Jr., who is the son of Mr. Holloway.

The remaining 1,940,282 common shares covered by this prospectus are being offered by South View, LLC and Stone Gate I, LLC, each of which received limited partnership interests in our operating partnership in exchange for the contribution of interests in two student housing properties acquired by our operating partnership on June 30, 2005, and the common shares offered hereby are issuable upon the conversion of those limited partnership interests.

Pursuant to this prospectus, the selling shareholders may sell the common shares offered for resale in a secondary offering. Under the terms of the limited partnership agreement of our operating partnership, a registration rights agreement with Vornado, and a registration rights agreement with FW Military Housing LLC, we are required to register all of the common shares that are described above. However, the registration of the common shares being offered pursuant to this prospectus does not necessarily mean that (i) any of the underlying units of limited partnership interest will be tendered for redemption, or (ii) we will, in fact, issue any of the common shares upon request for redemption, or (iii) if any of the common shares are issued, such selling shareholders will offer or sell any of their shares, or (iv) the selling shareholders who currently own common shares covered hereby will offer or sell any of their shares.

## USE OF PROCEEDS

The selling shareholders will receive the proceeds from the resale of the common shares covered by this prospectus. We will not receive any proceeds from the resale of the common shares by the selling shareholders.

### SELLING SHAREHOLDERS

The following table sets forth information regarding the beneficial ownership of our common shares by the selling shareholders as of February 15, 2007, and the number of common shares covered by this prospectus. Shares may also be sold by donees, pledgees or other transferees or successors in interest of the selling shareholders.

All of the common shares offered by the selling shareholders pursuant to this prospectus are issuable upon conversion of an equal number of limited partnership interests in our operating partnership, except that 2,517,247 of the common shares are currently owned by Vornado or its affiliates.

With respect to the common shares to be offered by Gary M. Holloway, Sr., our chairman, president and chief executive officer, under the terms of the Company's Declaration of Trust, Mr. Holloway and his affiliates are restricted from owning in excess of 20% in value of the Company's outstanding shares or 20% in value or number of shares (whichever is more restrictive) of the Company's then outstanding common shares. As a result, although Mr. Holloway and his affiliates currently hold 16,988,829 limited partnership interests in our operating partnership, he will be restricted from redeeming such partnership interests at any time that he holds 20% in value of the Company's then outstanding shares or 20% in value or number of shares of the Company's then outstanding common shares.

The shares being offered by the other selling shareholders are issuable upon the conversion of limited partnership interests in our operating partnership that were acquired upon completion of, or after, our initial public offering. Under the terms of the limited partnership agreement of our operating partnership, holders of limited partnership interests may elect to have the operating partnership redeem their interests for either an equal number of common shares (subject to adjustments in the event of share splits, share dividends and similar events in the future) or cash, in the sole discretion of the Company. Holders of limited partnership interests are eligible to have their interests redeemed after a one-year holding period which has passed as to all of the selling shareholders, and under the terms of our Declaration of Trust, are subject to a 7.1% ownership limitation with respect to the Company's then outstanding shares.

Beneficial ownership, as referred to in the table of selling shareholders below, is determined in accordance with the rules of the SEC and generally includes voting or investment power with respect to securities. Any common shares subject to options or warrants that are currently exercisable or exercisable within 60 days after February 15, 2007, are also deemed outstanding and to be beneficially owned by the selling shareholders holding such options or warrants.

Name of Selling Shareholder	Number of Shares Beneficially Owned Prior to Offering	Maximum Number of Shares Being Offered	Beneficial Ownership After Resale of Shares Being Offered				
			Number of Shares(1)	Percent of All Shares Outstanding(2)		Percent of All Shares and Units Outstanding(2)	
Gary M. Holloway, Sr. (3)	17,000,329	15,673,038	1,327,291	2.3	%	1.8	%
College Park Management, Inc. (3)	17,000,329	1,250,000	15,750,329	26.9		21.5	
GMH Associates, Inc. (3)	17,000,329	53,291	16,947,038	28.9		23.1	
LVWD, Ltd. (3)	17,000,329	12,500	16,987,829	29.0		23.2	
FW Military Housing LLC	2,583,334	2,583,334	0				
Vornado Realty L.P.(4)	9,855,104	6,666,667	3,188,437	6.5		4.4	
Vornado CCA Gainesville, L.L.C. (4)	9,855,104	671,190	9,183,914	18.8		12.5	
Vornado Investments L.L.C. (4)	9,855,104	2,517,247	7,337,857	15.0		10.0	
South View, LLC (5)	1,156,908	1,156,908	0				
Stone Gate I, LLC (5)	783,374	783,374	0				
Denise Hubley(6)	84,170	84,170	0				
James W. Kirby, Jr.(6)	29,167	29,167	0				
Austin Repetto(6)	29,167	29,167	0				
Joseph M. Macchione(7)	63,700	62,500	1,200		*		*
Kenneth J. Aspis(6)	26,467	26,467	0				
Candee M. Evelhoch(6)	22,833	20,833	2,000		*		*
Don Blair(6)	20,833	20,833	0				
Christopher J. Williams(6)	83,334	83,334	0				



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Richard C. Taylor(6)	62,500	62,500	0		
Bruce F. Robinson(7)	1,014,306	1,010,306	4,000	*	*
John De Riggi(7)	251,250	251,250	0		
Miles W. Orth, III(7)	42,167	41,667	500	*	*
Joseph M. Coyle Enterprises, Inc. (7)	432,769	422,769	10,000	*	*
Gary M. Holloway, Jr. (8)	125,000	125,000	0		
Frank Tropea, III	418,750	418,750	0		
Robert DiGiuseppe(8)	85,602	85,602	0		
<b>Total</b>	<b>34,171,064</b>	<b>34,141,864</b>	<b>29,200</b>	<b>*</b>	<b>*</b>

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\*Less than 1.0%.

- (1) Assumes the sale of all shares being offered by this prospectus; provided, however, that since the selling shareholders may, in their sole discretion, choose to sell all, a portion, or none of their common shares being registered pursuant to this prospectus, we cannot estimate the number of common shares that actually will be sold by any selling shareholder.
- (2) The percentage ownership for each beneficial owner listed above under the column Percent of All Shares Outstanding is based on 41,567,146 common shares that were outstanding as of February 15, 2007, or will become convertible into or exercisable/redeemable within 60 days thereafter, are deemed to be outstanding and beneficially owned by the person holding such options for the purpose of computing each individual selling shareholder's percentage ownership, but are not deemed to be outstanding for the purpose of computing the percentage ownership of any other selling shareholder. The percentage ownership for each beneficial owner listed above under the column Percent of All Shares and Units Outstanding is based on the an aggregate of 73,191,763 common shares and units of limited partnership interest in our operating partnership that were outstanding as of February 15, 2007.
- (3) Gary M. Holloway, Sr. is the chairman, president and chief executive officer of the Company. Each of the entities listed as selling shareholders are wholly-owned by Mr. Holloway. As described in the introduction to this section of the prospectus titled Selling Shareholders, Mr. Holloway and his affiliates are restricted under the terms of our Declaration of Trust from owning in excess of 20% in value or number of shares (whichever is more restrictive) of the Company's then outstanding common shares. Mr. Holloway is entitled to require that his limited partnership interests be redeemed for common shares of the Company at his option. The number of shares shown as beneficially owned by Mr. Holloway include 171,550 common shares held by his spouse. In addition to the amounts shown in the table, which are presented as of February 15, 2007, Mr. Holloway acquired an additional 30,000 common shares as reported in a Form 4 filed with SEC on May 31, 2007.
- (4) Vornado Realty L.P. is the operating partnership of Vornado Realty Trust, which is a reporting company under Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended. As such, we are omitting information regarding the natural persons who exercise voting and dispositive power with respect to these shares. Vornado CCA Gainesville, L.L.C. and Vornado Investments L.L.C. are each an affiliate of Vornado Realty L.P. and Vornado Realty Trust. Michael D. Fascitelli, a member of our Board of Trustees, is the president and a member of the board of trustees of Vornado Realty Trust. The address of Vornado Realty Trust is 888 Seventh Avenue, New York, NY 10019.

The number of common shares shown as beneficially owned by Vornado Realty L.P., Vornado CCA Gainesville, L.L.C. and Vornado Investments, L.L.C. includes the following: (i) 2,517,247 common shares held by Vornado Investments, L.L.C.; (ii) 671,190 common shares issuable upon redemption of an equal number of limited partnership interests in our operating partnership held by Vornado CCA Gainesville, L.L.C., (iii) 6,666,667 common shares issuable upon redemption of an equal number of limited partnership interests in our operating partnership held by Vornado Realty L.P. as of January 1, 2006. Does not include 5,552 restricted common shares issued under the Company's Equity Incentive Plan to Michael D. Fascitelli. Mr. Fascitelli has reported in his filings with the SEC that he disclaims beneficial ownership in the common shares and units of limited partnership interest held by Vornado Investments L.L.C., Vornado Realty L.P. and Vornado CCA Gainesville, L.L.C., except to the extent he has any pecuniary interest therein. See also the section of this prospectus titled *Risk Factors - Risks Relating to Our Organization and Structure - One of our trustees may have a conflict of interest as a result of his affiliation with Vornado Realty Trust, one of our largest shareholders on a fully-diluted basis.*

- (5) We issued an aggregate amount of 1,940,282 units of limited partnership interest in our operating partnership to South View, LLC and Stone Gate I, LLC on June 30, 2005 as partial consideration for the contribution by these entities of their interests in two student housing properties into our operating partnership. These selling shareholders have filed a lawsuit against us and our operating partnership relating to the issuance of these securities. See the section of this prospectus titled *Our Business and Properties - Legal Proceedings.*

(6) The following selling shareholders were employees of the Company as of the date of this prospectus: Don Blair Senior Vice President; Candee Evelhoch Senior Vice President; Denise Hubley Senior Vice President; James W. Kirby, Jr. Senior Vice President; Richard C. Taylor Senior Vice President; and Christopher J. Williams Senior Vice President. Prior to the Company's initial public offering in November 2004, Ms. Hubley served as Assistant Vice President and Assistant Secretary of GMH

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Military Housing, LLC and Mr. Williams served as Vice President and Treasurer of GMH Military Housing, LLC. GMH Military Housing, LLC is a predecessor entity of the Company. Austin Repetto served as a Senior Vice President of GMH Military Housing, LLC until March 2005, and currently provides consulting services to the Company in connection with the Company's Navy Northeast Region military housing privatization project.

(7) The following persons are executive officers of the Company: Bruce F. Robinson - President of Military Housing Business; John De Raggi - President of Student Housing Business and Chief Investment Officer; and Joseph M. Macchione - Executive Vice President and General Counsel. Joseph M. Coyle Enterprises, Inc. is an entity wholly-owned by Joseph M. Coyle, who was an executive officer (President of Student Housing Business) until December 31, 2005; since such date, Mr. Coyle has served as a consultant to the Company pursuant to a consulting agreement with the Company that has an initial term extending through May 31, 2007. With respect to the common shares presented as beneficially owned by Joseph M. Coyle Enterprises, Inc., Joseph M. Coyle and Theresa L. Coyle share voting and investment power over the securities. Miles W. Orth, III served as an executive officer (Executive Vice President - operations of Student Housing Business) from January 1, 2006 until June 26, 2006.

(8) Gary M. Holloway, Jr. is the son of Gary M. Holloway, Sr. and President of GMH Capital Partners, LP, an entity that is wholly-owned by Gary M. Holloway, Sr. Robert DiGiuseppe is an Executive Vice President of GMH Capital Partners, LP and GMH Associates, Inc., an entity that is wholly-owned by Gary M. Holloway, Sr. and, prior to the Company's initial public offering, Mr. DiGiuseppe served as Assistant Secretary of College Park Management, Inc. and Corporate Flight Services, Inc., each of which were predecessor entities of the Company. GMH Associates, Inc. and GMH Capital Partners, LP each lease a portion of the corporate headquarters building owned by the Company, and GMH Capital Partners, LP has provided, and may provide in the future, real estate brokerage services to the Company or its affiliates.

#### PLAN OF DISTRIBUTION

The selling shareholders, including any donees, pledgees or other transferees or successors in interest who receive shares from the selling shareholders, may, from time to time, sell all or a portion of the common shares covered by this prospectus on the New York Stock Exchange, in the over-the-counter market, or any other national securities exchange upon which the common shares may be quoted, listed or traded, in underwritten public offerings, privately negotiated transactions or otherwise, at fixed prices that may be changed, at market prices prevailing at the time of sale, at prices related to such market prices or at negotiated prices. The selling shareholders may sell the common shares by various methods, including one or more of the following:

- block trades in which the broker or dealer so engaged by the selling shareholders will attempt to sell the common shares as agent, but may purchase and resell a portion of the block as principal to facilitate the transaction;
- purchases by the broker or dealer as principal and resale by the broker or dealer for its account pursuant to this prospectus;
- an exchange distribution in accordance with the rules of the New York Stock Exchange;
- ordinary brokerage transactions and transactions in which the broker solicits purchasers;
- negotiated transactions or otherwise, including an underwritten offering;
- market sales (both long and short to the extent permitted under the federal securities laws);
- in connection with settlement of short sales of the common shares;
- in connection with the writing of non-traded and exchange-traded call options, in hedge transactions and in settlement of other transactions in standardized or over-the-counter options, if permitted under the securities laws;

- a combination of any of these methods of sale; and
- any other method permitted pursuant to applicable law.

In effecting sales, brokers and dealers engaged by the selling shareholders may arrange for other brokers or dealers to participate. Brokers or dealers may receive commissions or discounts from the selling shareholders or, if any such broker-dealer acts as agent for the purchaser of such shares, from such purchaser, in amounts to be negotiated. These commissions or discounts may exceed those customary in the types of transactions involved. Broker-dealers may agree with the selling shareholders to sell a specified number of common shares at a stipulated price per share, and, to the extent such broker-dealer is unable to do so acting as agent for the selling shareholders, to purchase as principal any unsold common shares at the price required to fulfill the broker-dealer commitment to the selling shareholders. Broker-dealers who acquire common shares as principal may thereafter resell such common shares from time to time in transactions (which may involve block transactions and sales to and through other broker-dealers, including transactions of the nature described above) at prices and on terms then prevailing at the time of sale, at prices then related to then-current market price or in negotiated transactions. In connection with such resales, broker-dealers may pay to or receive from the purchasers of common shares commissions as described above. The selling shareholders may also sell the common shares that qualify for sale pursuant to Rule 144 under the Securities Act of 1933, as amended, rather than pursuant to this prospectus.

The selling shareholders and any other person selling common shares pursuant to the registration statement of which this prospectus is a part will be subject to the Securities Exchange Act of 1934, as amended. The Securities Exchange Act of 1934 rules include, without limitation, Regulation M, which may limit the timing of purchases and sales of the common shares by the selling shareholders. In addition, Regulation M may restrict the ability of any person engaged in the distribution of the common shares to engage in market-making activities with respect to the common shares being distributed for a period of up to five business days prior to the commencement of the distribution. This may affect the marketability of the common shares and the ability of the selling shareholders and any other person or entity selling common shares pursuant to the registration statement of which this prospectus is a part to engage in market-making activities with respect to the common shares.

The selling shareholders and any broker-dealers or agents that participate with the selling shareholders in sales of the common shares may be deemed to be underwriters within the meaning of the Securities Act of 1933, as amended, in connection with those sales. In such event, any commissions received by such broker-dealers or agents and any profit on the resale of the common shares by the selling shareholders may be deemed to be underwriting commissions under the Securities Act of 1933, as amended.

In connection with the sale of the offered shares, the selling shareholder may enter into hedging transactions with broker-dealers. In connection with these hedging transactions, broker-dealers may engage in short sales of the offered shares in the course of hedging the positions they assume with the selling shareholders. The selling shareholders also may sell the offered shares short and redeliver the offered shares to close out the short positions. The selling shareholders also may enter into option or other transactions with broker-dealers, which require the delivery to the broker-dealer of the offered shares. The selling shareholders may also loan or pledge the offered shares to a broker-dealer, and the broker-dealer may sell the offered shares so loaned, or upon a default, the broker-dealer may effect sales of the offered shares that are pledged. In addition to the foregoing, the selling shareholders may enter into, from time to time, other types of hedging transactions.

From time to time, the selling shareholders may pledge their common shares pursuant to the margin provisions of their customer agreements with their brokers. Upon default by a selling shareholder, the broker may offer and sell such pledged common shares from time to time. Upon a sale of the common shares, the selling shareholders intend to comply with the prospectus delivery requirements under the Securities Act of 1933, as amended, by delivering a prospectus to each purchaser in the transaction, or by making the prospectus accessible in a manner that is the equivalent of delivery, as contemplated by the Securities Act of 1933, as amended. We intend to file any amendments or other necessary documents in compliance with the Securities Act of 1933, as amended, that may be required in the event a selling shareholder defaults under any customer agreement with a broker.

We are required to pay all fees and expenses incident to the registration of the common shares covered by this prospectus. We have agreed to indemnify certain of the selling shareholders against certain losses, claims, damages and liabilities, including liabilities under the Securities Act of 1933, as amended. Brokerage commissions and transfer taxes, if any, attributable to the sale of shares by the selling shareholders will be borne by the selling shareholders. The selling shareholders may agree to indemnify brokers, dealers or agents that participate in sales by the selling shareholders against certain losses, claims, damages and liabilities, including liabilities under the Securities Act of 1933, as amended.

**PRICE RANGE OF COMMON SHARES AND DIVIDEND POLICY**

Our common shares are traded on the New York Stock Exchange under the symbol GCT. Our common shares commenced trading on October 28, 2004. The following table sets forth, for the indicated periods, the high and low sales prices of our common shares as quoted on the New York Stock Exchange and the dividends we have paid to our shareholders.

	Price Range of Common Shares		Dividend Paid Per Share
	High	Low	
<b>Fiscal year ended December 31, 2005:</b>			
First Quarter	\$ 14.00	\$ 11.30	\$ 0.2275
Second Quarter	\$ 14.59	\$ 11.34	\$ 0.2275
Third Quarter	\$ 15.65	\$ 13.64	\$ 0.2275
Fourth Quarter	\$ 15.89	\$ 14.10	\$ 0.2275
<b>Fiscal year ended December 31, 2006:</b>			
First Quarter	\$ 17.10	\$ 10.80	\$ 0.2275
Second Quarter	\$ 13.18	\$ 10.75	\$ 0.2275
Third Quarter	\$ 13.73	\$ 11.80	\$ 0.2275
Fourth Quarter	\$ 14.18	\$ 10.04	\$ 0.1650 (1)

(1) Declared on December 18, 2006 and paid on February 1, 2007 to shareholders of record as of the close of business on December 29, 2006.

On June 1, 2007, the last reported sale price of our common shares on the New York Stock Exchange was \$10.86.

On June 1, 2007, there were approximately 27 holders of record of our common shares. This number does not include shareholders whose shares are held of record by a brokerage house or clearing agency, but does include any such brokerage house or clearing agency as one record holder.

We intend to pay regular quarterly distributions to our shareholders. Federal income tax law requires that a REIT distribute annually at least 90% of its REIT taxable income determined without regard to the dividends-paid deduction and excluding any net capital gains, and that it pay tax at regular corporate rates to the extent that it annually distributes less than 100% of its net taxable income, including capital gains. We anticipate that our estimated cash available for distribution will exceed the annual distribution requirements applicable to REITs. However, under some circumstances, we may be required to pay distributions in excess of cash available for distribution in order to meet these distribution requirements and we may need to borrow funds to pay some distributions.

Our ability to fund these distributions will depend, in part, upon cash flow from our student housing properties, our management contracts regarding student housing properties owned by others, from management, construction/renovation and development fees and preferred equity returns under our military housing privatization projects, and the continued successful leasing of our student housing portfolio and the acquisition of additional student housing properties and military housing privatization projects. The timing and amount of our anticipated cash flows is inherently uncertain. To the extent these sources are insufficient, we may lower our distributions or borrow funds for distributions from our current note facility with Merrill Lynch or from other third party borrowings sources. Availability under our current note facility is limited. As of June 1, 2007, we had approximately \$60.2 million in outstanding principal amount of notes under this \$100.0 million note facility. See also *Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources* for a discussion of certain financial covenants we are required to maintain in order to remain eligible for future borrowings under our note facility.

Distributions made by us will be authorized and determined by our Board of Trustees out of funds legally available therefore and will be dependent upon a number of factors, including restrictions under applicable law or contained in our debt instruments or agreements or in terms of any future preferred shares. Since our initial public offering, our distributions have exceeded our then current and accumulated earnings and profits as determined for federal income tax purposes due to non-cash expenses, primarily depreciation and amortization charges that we have incurred, and we expect them to continue to do so in the near term. Therefore, a portion of these distributions will represent a return of capital for federal income tax purposes. Distributions in excess of our current and accumulated earnings and profits and not treated as a dividend will not be taxable to a taxable U.S. shareholder under current federal income tax law to the extent those distributions do not exceed the shareholder's adjusted tax basis in his or her common shares, but rather will reduce the adjusted basis of the common shares. Therefore, the gain (or loss) recognized on the sale of the common shares or upon our liquidation will be increased (or decreased) accordingly. To the extent those distributions exceed a taxable U.S. shareholder's adjusted tax basis in his or her common shares, they generally will be treated as a capital gain realized from the taxable disposition of those shares.

Approximately 95% of our distributions for the year ending December 31, 2006 represented a return of capital for federal income tax purposes. With respect to our dividend distribution of \$0.165 per common share for the fourth quarter of 2006, this dividend will be included in our distributions for 2007 for tax purposes due to the fact that it was paid on February 1, 2007. To the extent not inconsistent with maintaining our REIT status, we may retain accumulated earnings of our taxable REIT subsidiaries in such subsidiary. The percentage of our shareholder distributions that exceeds our current and accumulated earnings and profits may vary substantially from year to year.

For the period from October 28, 2004 through December 31, 2004, we declared and paid our initial partial quarterly dividend of \$0.16 per common share. At the same time, our operating partnership paid an equivalent distribution of \$0.16 per unit to holders of limited partnership interests in our operating partnership. With respect to this distribution, \$0.109319 of the \$0.16 per common share represented a return of capital for federal income tax purposes. During the fiscal year 2005, and through the third quarter of 2006, we declared and paid quarterly dividends of \$0.2275 per common share, and our operating partnership paid an equivalent distribution of \$0.2275 per unit to holders of limited partnership interests in our operating partnership. In addition, on December 18, 2006, we declared a dividend of \$0.165 per common share to shareholders of record as of the close of business on December 29, 2006, that was paid on February 1, 2007. With respect to distributions paid to shareholders during the fiscal year 2005, approximately 59% of our distributions represented a return of capital for federal income tax purposes. We also declared a regular quarterly dividend with respect to the first quarter of 2007 equal to \$0.165 per share that was paid on April 13, 2007 to shareholders of record at the close of business on March 29, 2007.

As noted above, we lowered our quarterly distribution to shareholders for the fourth quarter of 2006 from historical levels. Prior to this decrease, we had historically paid a distribution of \$0.91 per year. We cannot assure you that we will continue to have cash available for distributions at historical levels or at all. Any distributions we pay in the future will depend upon our actual results of operations, economic conditions and other factors that could differ materially from our current expectations. Our actual results of operations will be affected by a number of factors, including the revenue we receive from our student housing properties, revenues from management and consulting fees in connection with management services that we will provide for student housing properties owned by others, revenues from our military housing privatization projects, our operating expenses, interest expense and unanticipated expenditures. For more information regarding risk factors that could materially adversely affect our actual results of operations, see *Risk Factors*.



## SELECTED FINANCIAL DATA

	For the Year Ended December 31,					Predecessor Entities	
	Three Months Ended March 31, 2007	2006	2006	2005	2004(1)	2003	2002
(in thousands, except per share data)							
<b>Operating Data</b>							
<b>Revenue:</b>							
Rental revenue	\$ 51,464	\$ 39,659	\$ 170,821	\$ 119,452	\$ 23,812	\$ 636	\$ 736
Operating expense reimbursements	18,845	14,716	70,243	62,580	40,512	10,591	3,711
<b>Fee income:</b>							
Related parties	2,421	2,039	8,481	7,005	4,355	3,892	6,578
Third parties	678	1,008	3,167	3,774	3,986	2,624	1,983
Other fee income related party	6,138	4,680	21,635	18,321	8,460	842	372
Other income	228	89	546	368	913	230	295
Total revenue	79,774	62,191	274,893	211,500	82,038	18,815	13,675
<b>Expenses:</b>							
Property operating expenses	22,142	16,458	80,533	52,134	20,292	9,218	7,799
Reimbursed expenses	18,845	14,716	70,243	62,580	40,512	10,591	3,711
Real estate taxes	4,901	3,743	16,050	10,921	1,736	83	79
Administrative expenses	4,870	4,080	17,682	12,254	6,006	1,405	295
Audit Committee and Special Committee expenses		2,575	7,821				
Profits interest and employee initial public offering bonus expense					37,502		
Depreciation and amortization	11,806	9,472	40,207	31,006	6,624	822	821
Interest	17,475	10,128	51,752	28,370	5,622	396	542
Total operating expenses	80,039	61,172	284,288	197,265	118,294	22,515	13,247
(Loss) income before equity in earnings of unconsolidated entities, minority interest, and income taxes from continuing operations	(265 )	1,019	(9,395 )	14,235	(36,256 )	(3,700 )	428
Equity in earnings of unconsolidated entities	1,029	1,216	3,523	3,073		751	
(Loss) income before minority interest and income taxes from continuing operations	764	2,235	(5,872 )	17,308	(36,256 )	(2,949 )	428
Income taxes	1,526	973	4,733	5,580	312		
(Loss) income before minority interest from continuing operations	(762 )	1,262	(10,605 )	11,728	(36,568 )	(2,949 )	428
Minority interest	(329 )	560	(4,625 )	5,700	256		
(Loss) income from continuing operations	(433 )	702	(5,980 )	6,028	(36,824 )	(2,949 )	428
<b>Discontinued Operations(2):</b>							
Income (loss) from discontinued operations before minority interest	990	787	1,762	60	(187 )		
Minority interest attributable to discontinued operations	428	349	768	29	(9 )		
Income (loss) from discontinued operations	562	438	994	31	(178 )		
Net income (loss)	\$ 129	\$ 1,140	\$ (4,986 )	\$ 6,059	\$ (37,002 )	\$ (2,949 )	\$ 428
<b>Earnings (loss) per common share-basic(3)</b>							
Continuing operations	\$ (0.01 )	\$ 0.02	\$ (0.14 )	\$ 0.19	\$ 0.01		
Discontinued operations	0.01	0.01	0.02	0.00	0.00		
	\$ 0.00	\$ 0.03	\$ (0.12 )	\$ 0.19	\$ 0.01		
<b>Earnings (loss) per common share-diluted(3)</b>							
Continuing operations	\$ (0.01 )	\$ 0.02	\$ (0.14 )	\$ 0.18	\$ 0.01		
Discontinued operations	0.01	0.01	0.02	0.00	0.00		
	\$ 0.00	\$ 0.03	\$ (0.12 )	\$ 0.18	\$ 0.01		

(1) The results of operations for the year ended December 31, 2004 reflect the results of operations of the GMH Predecessor Entities for the period from January 1, 2004 through November 1, 2004, and the results of operations for

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the Company, after completion of our initial public offering, for the period from November 2, 2004 through December 31, 2004.

(2) Represents six student housing properties held for sale as of March 31, 2007 and for which certain prior year operating statements have been restated as applicable.

(3) Basic and diluted earnings per share reflect our operations for the period November 2, 2004 (the date of the closing of the Company's initial public offering) to December 31, 2004. Net income for this period was \$251,000.

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	As of March 31, 2007	As of December 31, Company 2006 (in thousands)	2005	2004	Predecessor Entities 2003      2002	
<b>Balance Sheet Data</b>						
Real estate investments, net	\$1,366,381	\$ 1,592,567	\$ 1,181,216	\$ 634,730	\$	\$
Corporate office, net	8,433	8,425	7,613	11,384	6,963	7,100
Cash and cash equivalents	16,354	22,539	2,240	60,926	515	96
Assets held for sale	217,568					
Total assets	1,709,402	1,713,990	1,277,951	773,061	16,146	13,536
Mortgage notes payable and line of credit	1,100,547	1,227,725	728,069	370,007	10,977	11,806
Liabilities related to assets held for sale	138,090					
Total liabilities	1,305,883	1,298,718	792,452	395,242	12,552	13,099
Minority interest	152,853	157,972	188,633	182,118		
Equity	250,666	257,300	296,866	195,701	3,594	437

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**UNAUDITED PRO FORMA FINANCIAL INFORMATION**

The unaudited pro forma consolidated financial statement for the year ended December 31, 2006 was derived from our audited financial statements.

The unaudited pro forma consolidated statement of operations for the year ended December 31, 2006 is presented as if all of the properties that we own as of the date of this prospectus, as well as the five properties that were placed into a joint venture during the second quarter of 2007 and the three properties that were sold in May 2007 (see *Management's Discussion and Analysis of Financial Condition and Results of Operations 2007 Business Strategy* ), were owned as of January 1, 2006. The transfer of these five properties and the sale of the three properties were not material transactions and therefore are not reflected in these unaudited pro forma financial statements.

An unaudited pro forma consolidated balance sheet has not been presented as all properties that we own as of the date of this prospectus, as well as the five properties that were placed into a joint venture during the second quarter of 2007 and the three properties that were sold in May 2007 (see *Management's Discussion and Analysis of Financial Condition and Results of Operations 2007 Business Strategy* ), are reflected in the audited balance sheet of GMH Communities Trust as of December 31, 2006. The transfer of these five properties and the sale of the three properties were not material transactions and therefore are not reflected in these unaudited pro forma financial statements.

The unaudited pro forma consolidated financial statement should be read in conjunction with our historical financial statements, including the notes thereto, included elsewhere in this prospectus. The unaudited pro forma consolidated financial statement does not purport to represent the results of operations that would have actually occurred if all the properties that we own as of the date this prospectus were owned on January 1, 2006, nor do they purport to project the results of operations of GMH Communities Trust for any future period.

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UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS  
 For the year ended December 31, 2006  
 (dollars in thousands, except number of shares and per share amounts)

	GMH Communities Trust (A)	Capstone Acquisitions (B)	Other Acquisitions (C)	Pro Forma Adjustments	The Company Pro Forma
<b>Revenue</b>					
Rent and other income	\$ 170,821	\$ 21,419	\$ 5,442	\$	\$ 197,682
Expense reimbursement					
Related party	64,230				64,230
Third party	6,013				6,013
Management fees:					
Related party	8,481				8,481
Third party	3,167				3,167
Other fee related party	21,635				21,635
Other income	546				546
Total revenue	274,893	21,419	5,442		301,754
<b>Expenses</b>					
Property operating expenses	80,533	9,929	1,674		92,136
Reimbursed expenses	70,243				70,243
Real estate taxes	16,050	1,494	401		17,945
Administrative expenses	17,682				17,682
Audit Committee and Special Committee expenses	7,821				7,821
Depreciation and amortization	40,207			9,684	(D) 49,891
Interest	51,752			13,614	(E) 65,366
Total operating expenses	284,288	11,423	2,075	23,298	321,084
(Loss) income before equity in earning of unconsolidated entities, minority interest and income taxes from continuing operations	(9,395)	) 9,996	3,367	(23,298)	) (19,330)
Equity in earnings of unconsolidated entities	3,523				3,523
(Loss) income before minority interest and income taxes from continuing operations	(5,872)	) 9,996	3,367	(23,298)	) (15,807)
Income taxes	4,733				4,733
(Loss) income before minority interest from continuing operations	(10,605)	) 9,996	3,367	(23,298)	) (20,540)
Minority interest	(4,625)	)		(4,334)	(F) (8,959)
Net (loss) income from continuing operations	\$ (5,980)	) \$ 9,996	\$ 3,367	\$ (18,964)	) \$ (11,581)
Earnings (loss) per common share-basic					
Continuing operations	\$ (0.14)	)			\$ (0.29)
Earnings (loss) per common share-diluted					
Continuing operations	\$ (0.14)	)			\$ (0.29)
Weighted-average shares outstanding during the period:					
Basic	40,889,508				40,889,508
Diluted	73,344,995				73,344,995



## NOTES TO UNAUDITED PRO FORMA FINANCIAL STATEMENT

1. **Adjustments to the Unaudited Pro Forma Consolidated Statement of Operations for the year ended December 31, 2006.**

(A) Represents the historical consolidated statement of operations of GMH Communities Trust for the year ended December 31, 2006.

(B) Represents the historical revenues and certain expenses of the 10 properties included in continuing operations referred to as the Capstone Portfolio from January 1, 2006 through their respective acquisition dates. One property has been excluded from continuing operations as it is expected to be sold in June 2007.

(C) Represents the historical revenues and certain expenses of 10 additional student housing properties acquired during 2006 from January 1, 2006 through their respective acquisition dates as follows (in thousands):

	University Village	Jacobs Heights I	The Commons on Oak Tree	The Club	Brookstone Village	Lions Crossing	Stadium Suites	Jacobs Heights III(i)	Aztec Corner	Cambridge at Southern	Total
<b>Revenues:</b>											
Rent and other income	\$ 60	\$ 27	\$ 114	\$ 109	\$ 78	\$ 300	\$ 1,519	\$	\$ 2,218	\$ 1,017	\$ 5,442
<b>Certain expenses:</b>											
Property operating expenses	26	10	59	53	26	159	416		501	424	1,674
Real estate taxes	3	3	7	7	6	29	94		246	6	401
<b>Total certain expenses</b>	<b>29</b>	<b>13</b>	<b>66</b>	<b>60</b>	<b>32</b>	<b>188</b>	<b>510</b>		<b>747</b>	<b>430</b>	<b>2,075</b>
Revenues in excess of certain expenses	\$ 31	\$ 14	\$ 48	\$ 49	\$ 46	\$ 112	\$ 1,009	\$	\$ 1,471	\$ 587	\$ 3,367

(i) The Company acquired Jacob Heights III upon completion of the property's construction in August 2006 and, therefore, there are no historical results of operations for this property prior to the acquisition date.

(D) Represents \$5.9 million and \$3.8 million of depreciation and amortization expense relating to intangible lease costs, respectively, in connection with the student housing properties that the Company acquired, as if the acquisitions occurred on January 1, 2006. Depreciation and amortization expense are computed using the straight line method and are based on the estimated useful lives of the assets as follows:

Building	40 years
Furniture & fixtures	5 years
Intangible lease costs	7 -12 months

(E) Represents additional interest expense related to (i) new and assumed fixed rate mortgage indebtedness (ii) the related amortization of the deferred financing costs incurred in connection with these new mortgages (iii) amortization of the debt premiums and discounts relating to the fair market value adjustments recorded on the assumed debt and (iv) additional borrowings under the Company's line of credit, all of which were incurred in connection with the acquisitions of the student housing properties as if the acquisitions occurred on January 1, 2006. The new mortgages have 10-year terms and require monthly payments of principal and interest or interest only at fixed interest rates ranging from 5.32% to 5.84%. The assumed mortgages mature in 2009 through 2016 and require monthly payments of interest only at fixed interest rates ranging from 4.41% to 8.63%. The line of credit bears interest at LIBOR plus points ranging from 185 to 200 basis. The weighted average





interest rate of the line of credit on the date of closing for the Capstone Portfolio and the other acquisitions was 7.32% and 6.44%, respectively.

(F) Represents minority interest allocable to holders of limited partnership units in our operating partnership. The weighted average minority interest percentage was 43.62% for the year ended December 31, 2006.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS  
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

*GMH Communities Trust commenced operations on November 2, 2004, upon completion of its initial public offering and the simultaneous acquisition of the sole general partnership interest in GMH Communities, LP, referred to throughout this report as our operating partnership. The historical operations prior to completion of our initial public offering that are described in this prospectus refer to the operations of College Park Management, Inc., GMH Military Housing, LLC, 353 Associates, L.P., and Corporate Flight Services, LLC, which are collectively referred to, together with our operating partnership, as the GMH Predecessor Entities or our predecessor entities.*

*In connection with our formation transactions completed prior to and simultaneously with the completion of our initial public offering, the ownership interests in the GMH Predecessor Entities were contributed to our operating partnership as described in Note 1 of the financial statements included in this prospectus. We have described our operations in this prospectus as if the historical operations of our predecessor entities were conducted by us for the full fiscal year ended December 31, 2004.*

**Overview**

We are a self-advised, self-managed, specialty housing company that focuses on providing housing to college and university students residing off-campus and to members of the U.S. military and their families. As of March 31, 2007, we owned, or had ownership interests in, 77 student housing properties containing a total of 14,432 units and 46,696 beds and seven undeveloped or partially developed parcels of land held for development as student housing properties. In addition, we managed a total of 18 student housing properties owned by others, containing a total of 3,053 units and 9,900, as well as 51 units and 279 beds currently under construction. Additionally, as of March 31, 2007, our operating partnership had an ownership interest in, and through various wholly-owned subsidiaries operated, 10 military housing privatization projects, comprising an aggregate of 20,364 end-state housing units on 25 military bases. Through our taxable REIT subsidiaries, we provide development, construction, renovation and management services to our military housing privatization projects (other than our AETC Group I project), and property management services to student housing properties owned by others. In addition, we have provided consulting services with respect to the management of certain student housing properties owned by others, including colleges, universities, and other private owners. In order to comply with the applicable requirements under the REIT provisions of the Code, we must limit the operations of taxable REIT subsidiaries so that securities issued to us by our taxable REIT subsidiaries do not represent more than 20% of our total assets as of the close of any quarter in our taxable year and so that dividends from our taxable REIT subsidiaries, together with our other non-qualifying gross income, do not exceed 25% of our gross income for any taxable year.

Currently, our operations are managed within three operating segments that are separately reported: (1) student housing owned properties (2) student housing management, and (3) military housing. This structure provides an effective platform for maximizing market penetration and optimizing operating economies of scale. In addition, we separately report the activities of certain departments from a corporate level, which includes personnel that service GMH Communities Trust as a whole and support our overall operations.

**2007 Business Strategy**

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In December 2006, we announced that our management expected to implement a business strategy beginning in 2007 that would involve the sale, refinancing and/or entrance into joint ventures covering a number of our currently-owned student housing properties. Our management developed this plan primarily in an effort to raise capital proceeds that could be used to repay outstanding indebtedness under our line of credit with Wachovia Bank. In connection with this business strategy, we completed the refinancing of four of our student housing properties in February 2007, for a total of \$90.0 million in new 10-year mortgage debt at a fixed interest rate of 5.6%. We used the net proceeds from this refinancing to repay \$73.6 million in outstanding borrowings under the Wachovia line of credit, which resulted in the replacement of the indebtedness under the Wachovia line of credit that was carrying a variable LIBOR-based interest rate of 7.32% as of the date of the refinancing. Immediately following this transaction, we had approximately \$137.8 million in remaining borrowings outstanding under the Wachovia line of credit.

In addition, on April 13, 2007, we entered into a joint venture transaction with Fidelity Real Estate Group covering a total of six student housing properties. As of April 13, 2007, we had completed the transfer of our 100% interest in five of the six properties into the joint venture entity, which is currently owned 90% by Fidelity and 10% by us. The transfer of our interest in the sixth property to be included in the joint venture is expected to be completed during the second quarter of 2007, upon receipt of lender approval of the joint venture's assumption of the existing mortgage indebtedness on that property. In connection with the closing of the five properties that are part of the joint venture, Fidelity contributed approximately \$19.8 million into the joint venture, and the joint venture simultaneously placed new mortgage indebtedness on the properties in an aggregate amount of \$88.0 million. The new mortgage debt has a five-year term and requires interest-only payments at a fixed rate of approximately 5.52%. We received net proceeds from the joint venture transaction totaling approximately \$56.1 million, and used the proceeds to repay an equal amount of existing indebtedness outstanding under the Wachovia line of credit.

Also, on May 7, 2007, we entered into a revolving note facility, under the terms of a Note Purchase Agreement, with Merrill Lynch, Pierce, Fenner & Smith Incorporated. Under this note facility, our

operating partnership may issue up to an aggregate principal amount of \$100.0 million in notes outstanding at any time through April 30, 2010, and, subject to certain conditions, may be increased to up to an additional \$25 million in notes outstanding. On May 7, 2007, our operating partnership issued a note to Merrill Lynch for approximately \$90.7 million, which was used to pay a \$1.0 million commitment fee to Merrill Lynch, closing costs and to repay principal and interest due under, and to terminate, the Wachovia line of credit. The initial note was issued with an interest rate of 7.07% and has a term through April 30, 2010. On June 1, 2007, we redeemed an outstanding principal amount of notes under this facility equal to \$30.5 million, resulting in a remaining balance of \$60.2 million in principal of notes outstanding under the facility. Additional notes may be issued at any time upon notice by our operating partnership, and we will have the ability to repay amounts under outstanding notes and redraw such amounts through the issuance of new notes, provided that the maximum amount of notes outstanding at any time during the term of the Note Purchase Agreement may not exceed an aggregate principal amount of \$100.0 million, or \$125 million to the extent permitted to be increased. Under the terms of the note purchaser agreement, the notes will be issued to Merrill Lynch and may thereafter be transferred to qualified institutional buyers in accordance with Rule 144A of the Securities Act of 1933, as amended. The notes will be administered under the terms of a Trust Indenture with U.S. Bank Trust National Association, serving as trustee of the notes. The notes are issuable at an annual interest of LIBOR plus 1.75%, will require monthly payments of interest only, and are secured solely by the fees and equity preferred returns we receive in connection with our military housing projects currently in operation, as well as those to be received under the Navy Southeast project and West Point project for which we are currently under exclusive negotiations. For additional information regarding the terms of this transaction, see the section of this prospectus titled *Our Business and Properties Note Facility*.

On May 24, 2007, we completed the sale of three student housing properties to SCI Real Estate Investments, LLC, and received an aggregate of approximately \$27.8 million in net proceeds after the repayment of existing mortgage debt on the properties totaling approximately \$37.0 million. We used approximately \$23.2 million of the proceeds from these completed sales to repay outstanding indebtedness under our note facility through Merrill Lynch, and the remaining \$4.6 million in proceeds are being held in escrow for up to 180 days pending the Company's completion of a 1031 exchange transaction. Pursuant to our agreement with SCI, we have agreed to sell an additional two student housing properties. The timing of completion for the remaining two sale properties under the agreement, as well as one additional property sale to a different buyer, is contingent upon the timing of lender approval of applicable loan assumptions, which is currently expected to occur by the end of the second quarter of 2007 or early in the third quarter of 2007. We expect to use proceeds from the pending sale transactions to redeem outstanding notes under the Trust Indenture with U.S. Bank Trust as discussed above and for general working capital purposes.

#### ***Student Housing Owned Properties***

The student housing owned properties segment reflects the revenues and expenses of off-campus student housing properties acquired and owned through the REIT ownership structure which are strategically located near college or university campuses. During the years ended December 31, 2004, 2005 and 2006, our rental revenue increased substantially as a result of the acquisition of an aggregate of 75 properties (excluding two properties in which we have a 10% interest together with a joint venture partner). During the year ended December 31, 2006, we acquired 21 of these properties. Additionally, operating expenses, real estate taxes and depreciation and amortization have increased as a result of these acquisitions. Further, interest expense has increased related to the financing of the properties we have acquired.

Historically, we have found certain property revenues and operating expenses to be cyclical in nature, and therefore not incurred ratably over the course of the year. As our properties are leased predominantly on an academic-year basis, certain of our operating revenues and expenses will vary from quarter to quarter depending on the leasing cycle. For example, we experience significant turnover costs commencing towards the end of the second quarter and more significantly during the third quarter of our fiscal year, in connection with preparing our properties for new residents prior to commencement of the new academic-year lease period, which typically begins in August or September. In addition, we also typically incur higher lease-up costs during the first two quarters of our fiscal year, as this is the period during which we heavily target students for leases that will commence for the next academic year. Property revenues and expenses may differ from expected results in the year of acquisition, depending on the timing of the acquisition in relation to the leasing cycle.

In comparing our operating statistics for the three months ended March 31, 2007 versus 2006, most of the key operating metrics for the student housing owned properties segment, such as rent and other property income, depreciation and amortization, interest expense and property operating expense, experienced significant increases, primarily as a result of the presentation of a full quarter of operations during 2007 with respect to properties acquired during 2006. The increase in real estate taxes was disproportionately higher than the increase in rent and other property income due to more aggressive assessments by local taxing authorities with respect to certain of our student housing properties throughout 2006, resulting in higher real estate tax expenses on a quarter-over-quarter basis for the three months ended March 31, 2006 and 2007. The increase in property operating expenses was disproportionately higher than the increase in rent and other property income due primarily to continuing increases in utility expenses. We have also experienced, and expect to continue to experience, increases in



operating expenses (in addition to the proportionate increase associated with the increased number of properties owned during the three months ended March 31, 2007 versus 2006) that will include increased utility expenses resulting from national trends in higher energy-related costs.

Until we are able to successfully execute our 2007 business strategy to raise additional working capital as outlined above under 2007 Business Strategy, we expect to place less emphasis on the acquisition of additional student housing properties, and to continue to focus on the operational performance of our existing student housing properties and development projects. After we complete the implementation of this business strategy, and to the extent we are able to obtain sufficient working capital for additional acquisitions, we may determine that it is appropriate to place greater emphasis on the acquisition of additional student housing properties that are located in our targeted markets and that meet management's underwriting criteria for creating long-term growth potential. To the extent that we seek to acquire student housing properties during the remainder of 2007, we will consider funding the acquisition through joint venture structures similar to the joint venture terms that we entered into with respect to our current properties held through joint ventures. The timing of any additional acquisitions or development projects will be dependent upon various factors, including the ability to complete satisfactory due diligence, to find suitable joint venture partners and agree upon mutually acceptable joint venture terms, to obtain appropriate debt financing on the properties, and the availability of capital. We would consider funding our equity portion of any joint ventures by using funds from available cash from operations or borrowings. We may also determine that it is appropriate to purchase additional student housing properties outright, as opposed to with a joint venture partner, depending upon many factors which may include, but are not limited to, the applicable purchase price, available capital, and projected returns with respect to the property.

During the three months ended March 31, 2007, we completed the following transactions relating to our student housing owned properties:

- on January 26, 2007, we acquired a 50.1-acre land parcel located adjacent to a currently-owned student housing property located in Lincoln, Nebraska and serving the University of Nebraska, for total consideration of approximately \$1.3 million; and
- on February 28, 2007, we completed the refinancing of four currently-owned student housing properties. Under the refinancing, we placed an aggregate of \$90.0 million in mortgage indebtedness on the four properties, with each loan having a 10-year interest-only term and bearing a fixed interest rate of 5.6%. As a result of the refinancing, we realized net proceeds of \$73.6 million, after repayment of existing mortgage loans, payment of prepayment penalties and closing costs. These net proceeds were used to repay an equal amount of the outstanding indebtedness under our recently terminated Wachovia line of credit.

On April 13, 2007, we completed a joint venture transaction with the Fidelity Real Estate Group, a unit of Pyramis Global Advisors, a Fidelity Investments Company, encompassing a total of six student housing properties. Under the new ownership structure, we completed the transfer of our 100% interest in five of the six student housing properties into the joint venture entity, which is now jointly owned by Fidelity and by us. The sixth property to be included in the joint venture will be transferred upon lender approval of the joint venture's assumption of existing mortgage indebtedness on that property. As part of the transaction the joint venture simultaneously placed new mortgage indebtedness on the five properties in an aggregate amount of approximately \$88.0 million. The new mortgage debt has a five-year term and requires interest-only payments at a fixed rate of approximately 5.52%. After the repayment of previously existing mortgage debt on the properties, we received net proceeds from both the Fidelity equity contribution and the new mortgage debt totaling approximately \$56.1 million, and used these proceeds to repay an equal amount of indebtedness outstanding under our recently terminated Wachovia line of credit. The five properties included in the joint venture as of the date of this report include University Uptown (Denton, TX), University Heights (Knoxville, TN), University Walk (Charlotte, NC), The Ridge (Morgantown, WV), and Campus Edge - Phase I (Charlotte, NC). The transfer of the sixth property to be placed into the joint venture, Campus Edge - Phase II, is expected to be completed during the second quarter of 2007. Under the terms of the joint venture, we will continue to manage the properties and receive management fees.

Also, on May 24, 2007, we completed the sale of three student housing properties pursuant to an agreement of sale with SCI Real Estate Investments, LLC covering a total of five student housing properties. For additional information regarding these sales, see the section above titled 2007 Business Strategy.

### ***Student Housing Management***

The student housing management segment provides the on-site management function for, and generally oversees the management of, all off-campus student housing properties for the Company and for properties we manage that are owned by third parties. Third parties may be related parties or parties unaffiliated with the Company. The properties are strategically located near college or university campuses. We earn management fees from managing properties for third parties. These fees are typically equal to a percentage of cash receipts or gross rental revenues generated by the managed properties, or equal to a fixed monthly amount, according to the management agreements for the properties we manage. We also have the ability to earn incentive management fees by achieving specified property-level performance criteria for certain properties we manage for third parties. Further, certain operating expenses incurred related to properties we manage for others are reimbursed by the owners of the properties managed. Total revenues from management activities, including reimbursement of expenses, increased by approximately 2.0% from three months ended March 31, 2006 to the same period in 2007, including management fees earned from the properties managed for the Company. During 2007, we expect to continue to pursue new third-party management agreements by utilizing relationships in the student housing market and providing our significant operational economies of scale as a savings mechanism for other third-party owners, including institutional owners and individual student housing owners. However, we expect management fees to contribute less significantly as a percentage of overall revenue in future periods, as a result of the continued growth in rental revenue that we expect to generate from the operations of properties we own and from the full year of operations of properties that we acquired during 2006.

### ***Military Housing***

Our military housing segment develops, constructs, renovates and manages military housing privatization projects in which we acquire equity interests. Revenue from our military housing segment is comprised primarily of fee income for providing development, construction/renovation and management services to our military housing privatization projects. In addition, we also are entitled to returns on the equity we invest in the projects. In addition, we earn business development fees from certain of our business partners in connection with our military housing privatization projects, such as our construction and architectural/engineering partners. We seek these fees as payment for our business development efforts incurred by us in connection with pursuing and coordinating the completion of military housing privatization projects that benefit these business partners. We also receive expense reimbursements, consisting primarily of payroll and related expenses, closing costs and transition costs we incur for the project in the periods preceding the initiation of our management of the project. Typically, at the time we initiate management on a project, the project reimburses us for these amounts from the proceeds of the debt securities issued by the military housing privatization project.

As of March 31, 2007, we owned equity interests in the joint ventures that owned the 10 military housing privatization projects in operation, encompassing 25 military bases totaling 20,364 end-state housing units. During the three months ended March 31, 2007, we earned fees for providing development, construction/renovation and management services to these 10 military housing privatization projects.

During the three months ended March 31, 2007, the following events occurred with respect to our military housing segment:

- on February 6, 2007, we closed on our AETC Group I project with the Department of the Air Force, a military housing privatization project covering four bases and 2,875 end-state housing units. The AETC Group I project represents our first military housing project with the Department of the Air Force;
- on February 26, 2007, we announced that we were selected by the Department of the Navy to enter into exclusive negotiations for the design, construction, management and maintenance of the military family housing at 11 Southeast Region Navy bases in five states. The 50-year term of the Navy Southeast project is expected to commence with a six-year initial development period, or IDP, that is valued in excess of \$700 million and covering approximately 5,501 end-state housing units; and
- on March 8, 2007, we also announced that we were selected by the Department of the Army to enter into exclusive negotiations for the family housing privatization project at the U.S. Military Academy at West Point, New York, which is expected to have a five-year IDP with project costs valued in excess of \$160 million and cover 628 end-state housing units.

Subsequent to the first quarter, in May 2007, we announced that we were selected by the Department of the Army to enter into exclusive negotiations for the family housing privatization project at Fort Jackson in Columbia, South Carolina, which is expected to have a six-year IDP

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with project costs valued in excess of \$180 million and cover 990 end-state housing units.

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With regard to trends and uncertainties in the military housing market see the section of this prospectus titled *Risk Factors Specific Risks Related to our Military Housing Business*. Our management team also had under review, as of May 7, 2007, four potential additional military housing privatization project opportunities, and will continue to pursue opportunities to acquire projects or project rights from our competitors, as well as opportunities to participate in pilot housing programs for unaccompanied military personnel. For additional details with respect to these projects see the section titled *Military Housing Business Additional Military Housing Privatization Projects and Development Opportunities under Review* located in the *Our Business and Properties* section of this prospectus.

#### **Critical Accounting Policies**

Our Management's Discussion and Analysis of Financial Condition and Results of Operations discusses the Company's consolidated financial statements and the GMH Predecessor Entities' combined financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. While the estimates and judgments associated with the application of these accounting principles may be affected by different assumptions or conditions, we believe the estimates and judgments associated with the reported amounts are appropriate under the circumstances in which they were made. In addition, other companies in similar businesses may utilize different estimation policies and methodologies, which may impact the comparability of our results of operations and financial condition to those companies.

The following policies require significant judgments and estimates on our part in preparing the Company's consolidated financial statements and the GMH Predecessor Entities' combined financial statements. Changes in these judgments and estimates could have a material effect on these financial statements.

## Revenue Recognition

### *Student Housing*

Student housing revenue includes rental revenue and other property income, standard and incentive management fees, and reimbursements of certain operating expenses. These sources of revenue are described in greater detail below:

- we recognize student housing rental revenue when due over the lease terms, which are generally 12 months or less;
- we recognize other property income, including, but not limited to, lease processing fees, move-in fees, and activity fees as earned throughout the course of the year. The timing of these fees typically fluctuates in relation to the academic year leasing cycle;
- standard management fees are based on a percentage of monthly cash receipts or gross monthly rental and other revenues generated by the properties managed for others. We recognize these fees on a monthly basis as the services are performed;
- we earn incentive management fees as a result of the achievement of certain operating performance criteria over a specified period by certain managed properties, including targeted annual debt service coverage ratios of the properties. We recognize these fees at the amount that would be due under the contract if the contract was terminated on the balance sheet date; and
- expense reimbursements are comprised primarily of salary and related costs of certain of our employees working at certain properties we manage for others, the cost of which is reimbursed by the owners of the related properties. We accrue operating expense reimbursements as the related expenses are incurred.

### *Military Housing*

We earn military housing revenues for providing services to our military housing privatization projects, including the following:

- standard and incentive management fees, which are based on a percentage of revenue generated by the military housing privatization projects from the basic allowance for housing provided by the government to service members, referred to as BAH, are recognized when the revenue is earned by the military housing projects. Incentive management fees are based upon the satisfaction of certain criteria including, among other things, satisfying designated benchmarks relating to emergency work order response, occupancy rates, home turnover and resident satisfaction surveys. Incentive management fees are recognized when the various criteria stipulated in the management contract have been satisfied;
- standard and incentive development and construction/renovation fees, which are based on a percentage of development and construction/renovation costs incurred by the military housing privatization projects, including hard and soft costs and financing costs, are recognized on a monthly basis as the costs are incurred by the military housing projects. Incentive development and construction/renovation fees are based upon the satisfaction of certain criteria including, among other things, completing a number of housing units according to schedule, achieving specific safety records and implementing small business or minority subcontracting plans. The incentive development and construction/renovation fees are recognized when the various criteria stipulated in the contract have been satisfied. In addition, in certain instances, we may receive fees relating to the performance of pre-construction/renovation services. These pre-construction/renovation fees are determined on a project-by-project basis, and are paid in proportion to the amount of pre-construction/renovation costs incurred by us for the project and recognized as revenue upon performance of the pre-construction/renovation services;

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- revenues on fixed-price renovation contracts are recorded on the percentage-of-completion method. When the percentage-of-completion method is used, contract revenue is recognized in the ratio that costs incurred to date bear to estimated costs at completion. Adjustments to cost estimates are made in the period in which the facts requiring such revisions become known. When the revised estimates indicate a loss, such loss is provided for currently in its entirety.
- business development fees are earned from our business partners that provide architectural and design or construction services for our military housing projects. These fees are received in connection with pursuing and coordinating the

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completion of military housing projects. The fees consist of (i) an annual base fee, which is a fee paid to us in consideration of our ongoing pursuit of additional projects and is not contingent upon the success of those efforts and can be cancelled at any time, and (ii) an additional fee, which is paid over the course of an awarded project based on a percentage of revenue earned by these business partners for providing services to the military housing projects. The base fees are recognized on a straight-line basis over the term of the related business development agreement, which is generally one year. The additional fee is recognized and paid to us as the related services are provided to our military housing projects by our business partners.

- equity returns are earned on our investments in military housing projects. During the initial development period for a project, the equity returns are a fixed percentage of our investment and subsequent to the initial development period for a project, the equity returns are based on a fixed percentage of our investment and on the project's net operating income, subject to cash distribution caps, as defined in the operating agreements related to the particular project. As of December 31, 2006, only the Fort Carson project had passed its initial development period.

#### ***Real Estate Investments and Corporate Assets***

We carry real estate investments and corporate assets at cost, net of accumulated depreciation. Cost of acquired assets includes the purchase price and related closing costs. We allocate the cost of real estate investments to net tangible and identified intangible assets based on relative fair values in accordance with Statement of Financial Accounting Standards No. 141 ( SFAS 141 ), *Business Combinations*. We estimate fair value based on information obtained from a number of sources, including our due diligence, marketing and leasing activities, independent appraisals that may be obtained in connection with the acquisition or financing of the respective property, and other market data.

The value of in-place leases is based on the difference between (i) the property valued with existing in-place leases and (ii) the property valued as if vacant. As lease terms typically are 12 months or less, actual rates on in-place leases generally approximate market rental rates. Factors that we consider in the valuation of in-place leases include an estimate of incremental carrying costs during the expected lease-up periods considering current market conditions and nature of the tenancy. Purchase prices of student housing properties to be acquired are not expected to be allocated to tenant relationships considering the terms of the leases and the expected levels of renewals. We amortize the value of in-place leases to expense over the remaining term of the respective leases, which is generally one year or less.

We expense routine repair and maintenance costs that do not improve the value of an asset or extend its useful life, including turnover costs. We capitalize expenditures that improve the value and extend the useful life of an asset. We compute depreciation using the straight-line method over the estimated useful lives of the assets, which is generally 40 years for buildings including student housing properties and the commercial office building, and three to five years for residential furniture and appliances. Commencing towards the end of the second quarter and more significantly during the third quarter of each fiscal year, we typically will experience an increase in property operating expenses over other quarters as a result of repair and maintenance expenditures relating to turnover of units at student housing properties. Our student housing lease terms generally commence in August or September to coincide with the beginning of the academic year. Accordingly, we expect to incur a majority of its repair and maintenance costs during the second and third quarters to prepare for new residents.

In accordance with Statement of Financial Accounting Standards No. 144 ( SFAS 144 ), *Accounting for the Impairment or Disposal of Long-Lived Assets*, long-lived assets, such as real estate investments and purchased intangibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. These circumstances may include, but are not limited to, operational performance, market conditions and competition from other off-campus properties and on-campus housing, legal and environmental concerns, and results of appraisals or other information obtained as part of a financing or disposition strategy. When required, we review the recoverability of assets to be held and used through a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated undiscounted future cash flows, an impairment charge is recognized in an amount by which the carrying value of the asset exceeds the fair value of the asset determined using customary valuation techniques, such as the present value of expected future cash flows. Assets to be disposed of would be separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and no longer would be depreciated.

#### ***Allowance for Doubtful Accounts***

We estimate the collectibility of receivables generated by rental and other income as a result of the operation of our student housing properties. If we believe that the collectibility of certain amounts is questionable, we record a specific reserve



for these amounts to reduce the amount outstanding to an amount we believe will be collectible and a reserve for all other accounts based on a range of percentages applied to aging categories, which is based on historical collection and write-off experience.

We also evaluate the collectibility of fee income and expense reimbursements generated by the management of student housing properties owned by others and through the provision of development, construction, renovation and management services to our military housing privatization projects based upon the individual facts and circumstances, and record a reserve for specific amounts, if necessary.

#### ***Minority Interest***

Minority interest as initially recorded at the date of our initial public offering represented the net equity of our operating partnership, including the proceeds received from the sale of the warrant to Vornado, multiplied by the ownership percentage of holders of limited partnership units in our operating partnership other than the Company. Our operating partnership is obligated to redeem, at the request of a holder, each unit of limited partnership interest for cash or common shares on a one-for-one basis, at our option, subject to adjustments for share splits, dividends, recapitalizations or similar events; except that Gary M. Holloway, Sr. has the right to require our operating partnership to redeem his and his affiliates' units of limited partnership interest for common shares, subject to his restriction from owning more than 20% of our outstanding common shares. If the minority interest unit holders' share of a current year loss would cause the minority interest balance to be less than zero, the minority interest balance will be reported as zero unless there is an obligation of the minority interest holders to fund those losses. Any losses in excess of the minority interest will be charged against equity. If future earnings materialize, equity will be credited for all earnings up to the amount of those losses previously absorbed. Distributions to limited partnership unit holders other than us are recorded as a reduction to minority interest.

#### ***Investments in Military Housing Projects and Student Housing Joint Ventures***

We own equity interests in the joint ventures that own our military housing privatization projects with the U.S. military to design, develop, construct/renovate and manage the military family housing located on or near various bases throughout the United States. We evaluate our investments in military housing project joint ventures in which we have a variable interest to determine if the underlying entity is a variable interest entity ( VIE ) as defined under FASB Financial Interpretation No. 46 (as revised) ( FIN 46(R) ). We have concluded that each of the military housing project joint ventures in which we have a variable interest is a VIE and we are not the primary beneficiary of any of these VIEs. We record our investments in joint ventures under our military housing projects in accordance with the equity method of accounting. Our investment is initially recorded at cost, and then subsequently adjusted at each balance sheet date to an amount equal to what we would receive from the joint venture in the event that it were liquidated at net book value as of that date, and assuming that the proceeds from the liquidation are distributed in accordance with the terms of, and priority of returns set forth under, the joint venture's operating agreement. We have exposure to loss to the extent of our investments, if any, and any receivables due from the project.

We entered into a joint venture in the third quarter of 2005 to develop and construct two student housing properties. We contributed land to the joint venture in exchange for its 10% interest and cash. In addition, we have the option to purchase the joint venture partner's interest in the joint venture within one year of completion of the properties, and we have provided certain guarantees for the completion of construction and for a portion of the construction loans. As such, the transaction is being accounted for under the financing method, whereby we record the real estate as an asset, depreciate the property, and record a financing obligation. Construction of both properties was completed in August 2006.

#### ***Income Taxes***

We elected to be taxed as a REIT under the Code commencing with its taxable year ended December 31, 2004. To continue to qualify as a REIT, we must meet a number of organizational and operational requirements, including a requirement that we currently distribute at least 90% of our adjusted taxable income to our shareholders. We believe we are organized and operate in a manner that allows us to qualify for taxation as a REIT under the Code, and it is our intention to adhere to these requirements and maintain our REIT status in the future. Accordingly, no provision has been made for federal income taxes in the accompanying consolidated financial statements, other than with respect to our taxable REIT subsidiaries.

In conformity with the Code and applicable state and local tax statutes, taxable income or loss of The GMH Predecessor Entities was required to be reported in the tax returns of Gary M. Holloway, Sr. and Vornado, as such entities

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were treated as pass-through entities for tax purposes. Accordingly, no income tax provision has been reflected in the accompanying combined statements of operations of the GMH Predecessor Entities.

**Results of Operations**

The results of operations for the three months ended March 31, 2007 and 2006, and for the years ended December 31, 2006, 2005 and 2004, presented below reflect the results of operations of the Company. The eliminations column represents the management fees that are charged to our student housing owned segment from our student housing management segment. Such amounts have been eliminated in consolidation. In addition, results of operations presented for the years ended December 31, 2006, 2005 and 2004 have been recast to reflect discontinued operations relating to certain student housing properties sold or held for sale by the Company. For additional information regarding the properties excluded from continuing operations, see the notes to the financial statements for the three months ended March 31, 2007 included as part of this prospectus.

*Comparison of the Three Months Ended March 31, 2007 to the Three Months Ended March 31, 2006*

	Three Months Ended March 31, 2007					Total
	Student Housing-Owned Properties	Student Housing Management	Military Housing	Corporate	Elimination	
<b>Revenue:</b>						
Rent and other property income	\$ 51,425	\$	\$	\$ 39	\$	\$ 51,464
Expense reimbursements:						
Related party			17,335	64		17,399
Third party		1,446				1,446
Management fees:						
Owned properties		1,914			(1,914 )	
Related party			2,421			2,421
Third party		678				678
Other fee income related party			6,138			6,138
Other income	29	8	20	171		228
Total revenue	51,454	4,046	25,914	274	(1,914 )	79,774
<b>Operating Expenses:</b>						
Property operating expense	18,114	2,053	1,975			22,142
Intercompany management fee	1,914				(1,914 )	
Reimbursed expenses		1,446	17,335	64		18,845
Real estate taxes	4,877			24		4,901
Administrative expenses				4,870		4,870
Audit Committee and Special Committee expenses						
Depreciation and amortization	11,571		118	117		11,806
Interest	15,984			1,491		17,475
Total operating expenses	52,460	3,499	19,428	6,566	(1,914 )	80,039
(Loss) income before equity in earnings of unconsolidated entities, income taxes, and minority interest	(1,006 )	547	6,486	(6,292 )		(265 )
Equity in earnings of unconsolidated entities			1,029			1,029
(Loss) income before minority interest	(1,006 )	547	7,515	(6,292 )		764
Income tax expense		68	1,458			1,526
Income (loss) before minority interest	(1,006 )	479	6,057	(6,292 )		(762 )
Minority interest attributable to continuing operations				(329 )		(329 )
Net (loss) Income from continuing operations	(1,006 )	479	6,057	(5,963 )		(433 )
<b>Discontinued Operations:</b>						
Income from discontinued operations before minority interest	789	201				990
Minority interest				428		428

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Income from discontinued operations	789	201	(428	)	562
Net (loss) income	\$ (217	) \$ 680	\$ 6,057	\$ (6,391	) \$ 129

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	Three Months Ended March 31, 2006					
	Student Housing- Owned Properties	Student Housing Management	Military Housing	Corporate	Elimination	Total
<b>Revenue:</b>						
Rent and other property income	\$ 39,620	\$	\$	\$ 39	\$	\$ 39,659
Expense reimbursements:						
Related party		86	13,237	57		13,380
Third party		1,336				1,336
Management fees:						
Owne d properties		1,503			(1,503 )	
Related party		20	2,019			2,039
Third party		1,008				1,008
Other fee income related party			4,680			4,680
Other income	36	13	9	31		89
Total revenue	39,656	3,966	19,945	127	(1,503 )	62,191
<b>Operating Expenses:</b>						
Property operating expense	13,453	1,466	1,539			16,458
Intercompany management fee	1,503				(1,503 )	
Reimbursed expenses		1,422	13,237	57		14,716
Real estate taxes	3,719			24		3,743
Administrative expenses				4,080		4,080
Audit Committee and Special Committee expenses				2,575		2,575
Depreciation and amortization	9,275		119	78		9,472
Interest	9,610			518		10,128
Total operating expenses	37,560	2,888	14,895	7,332	(1,503 )	61,172
Income (loss) before minority interest and income taxes	2,096	1,078	5,050	(7,205 )		1,019
Equity in earnings of unconsolidated entities			1,216			1,216
Income (loss) before income taxes and minority interest	2,096	1,078	6,266	(7,205 )		2,235
Income tax expense			973			973
Income (loss) before equity in earnings of unconsolidated entities, income taxes and minority interest	2,096	1,078	5,293	(7,205 )		1,262
Minority interest attributable to continuing operations				560		560
Income from continuing operations	2,096	1,078	5,293	(7,765 )		702
<b>Discontinued Operations:</b>						
Income from discontinue operations before minority interest	616	171				787
Minority interest				349		349
Income from discontinued operations	616	171		(349 )		438
Net income (loss)	\$ 2,712	\$ 1,249	\$ 5,293	\$ (8,114 )	\$	\$ 1,140

## *Student Housing*

### *Student Housing Owned Properties*

*Revenue.* Of the 69 properties owned and included in our results from continuing operations as of March 31, 2007, we acquired 20 of the student housing properties during 2006, six of which were acquired during the first quarter of 2006. Rent and other property income increased to \$51.4 million during the three months ended March 31, 2007 from \$39.6 million during the three months ended March 31, 2006. The increase in rent and other property income experienced during the three months ended March 31, 2007 primarily relates to (i) the presentation of a full quarter of operations during 2006 with respect to the 6 properties acquired during the first quarter of 2006, and (ii) the acquisition of an additional 14 properties during the remainder of 2006. Although we generally seek rent increases that will exceed projected increases in property operating expenses, increases in our property operating expenses exceeded our rent increases from 2006 to 2007, primarily as a result of increases in payroll, utility expenses and real estate taxes incurred during the first quarter of 2007. In future periods, our net income will be negatively affected to the extent property operating expenses are higher than those projected by our management for such period prior to lease execution for the applicable academic year.

We owned 49 properties which are included in our results from continuing operations during both the three months ended March 31, 2007 and 2006, referred to herein as our same store properties. Our revenues at the same store properties were \$37.5 million during the three months ended March 31, 2007 as compared to \$37.6 million during the three months ended March 31, 2006. Our revenues for these properties, were adversely affected by eight same store properties (which we refer to as the focus properties) that did not achieve the economic occupancy levels we had targeted upon commencement of the 2006-2007 academic year. We believe that these lower than anticipated leasing results are temporary in nature at all eight focus properties, and we have committed resources to improving their occupancy levels. Our same store revenues, excluding the eight focus properties referred to above, increased \$1.4 million, or 4.9%, in 2007 as compared to the prior year.

Other income decreased slightly to \$29,000 in the first quarter of 2007 from \$36,000 in the first quarter of 2006. Other income consists primarily of interest income on invested cash.

*Expenses.* Property operating expenses from continuing operations increased to \$18.1 million in 2007 from \$13.5 million in the first quarter of 2006, primarily due to expenses attributable to the 14 properties acquired during the last nine months of 2006 and our ownership and operation for a full quarter during 2007 of the six properties acquired during the first quarter of 2006. The increase of \$4.6 million is attributable to the following: a \$2.2 million increase in utilities expenses; a \$0.4 million increase in insurance expense; a \$0.8 million increase in payroll expenses at the property level; a \$0.2 million increase in bad debt expense relating to uncollected rents and other income; and a \$1.0 million increase in other property expenses, consisting of marketing, insurance, landscaping, office and other similar property operating expenses.

With respect to our same store properties, we experienced an increase in property operating expenses of approximately \$0.5 million in 2007, as compared to 2006. This increase was primarily attributable to an increase in utilities expense.

Real estate taxes from continuing operations increased to \$4.9 million in 2007 from \$3.7 million in 2006, primarily due to the acquisition of 14 properties in 2006 during the last nine months of the year and the full quarter of real estate taxes with respect to the six properties we acquired during the first quarter of 2006. Of the \$1.2 million increase we experienced in real estate taxes, approximately \$0.1 million is related to our same store properties. We expect an overall increase in real estate taxes during 2007 due to a full year of operations for the 20 properties acquired during 2006, offset by a decrease as a result of the six properties that we have or will transfer our 100% ownership interests into a joint venture by the end of the second quarter of 2007. We may also see an increase in real estate taxes to the extent that local authorities continue to aggressively pursue higher real estate tax assessments on properties that we currently own.

Depreciation and amortization from continuing operations increased to \$11.6 million as compared to \$9.3 million in 2006, primarily as a result of acquiring 14 properties in 2006 during the last nine months of the year for an aggregate purchase price of \$325.3 million, as well as the inclusion of a full year of depreciation expense relating to the six properties acquired during the first quarter of 2006. The \$11.6 million in 2007

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is comprised of \$10.6 million of depreciation and \$1.0 million of lease intangible amortization.

Interest expense from continuing operations increased to \$16.0 million in 2007 from \$9.6 million in 2006, as a result of incurring additional debt, including placement of new mortgage debt and the

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assumption of existing mortgage debt, as well as borrowings under the Wachovia line of credit, in connection with the acquisition of 20 properties in 2006. During the last nine months of 2006, we placed \$231.7 million of new mortgage debt, assumed \$27.3 million of existing mortgage debt, net of premiums, and increased borrowings under our credit lines in existence during that period. We expect interest expense to decrease during the remainder of 2007 as the Company pays down the remaining outstanding balance on its new note facility with Merrill Lynch through i) \$56.1 million of net proceeds received from the sale of the six student housing properties transferred into a joint venture during the second quarter of 2007, and ii) expected proceeds to be received from the six properties identified for sale for which the Company has signed a definitive sales agreement.

#### *Student Housing Management*

*Revenue.* Prior to the three months ended March 31, 2007, the Company ceased managing student housing properties for related parties, as the one property that we managed for a related party in the first quarter of 2006 was sold during December 2006. Therefore, there were no expense reimbursements from related parties or management fees during 2007.

Expense reimbursements from third parties remained relatively consistent during the three months ended March 31, 2007 as compared to the same period in the prior year. Reimbursed expenses are comprised of payroll expenses for on-site employees. We expect expense reimbursements to increase in 2007 as a result of the management agreement we currently have in place to manage the six properties that we have or will transfer into a joint venture with Fidelity Real Estate Group during the second quarter of 2007, and as we continue to pursue new third-party management agreements during 2007.

Management fee income from third parties decreased from \$1.0 million during the three months ended March 31, 2006 to \$0.7 million during the three months ended March 31, 2007. This decrease is due to one time fee of \$250,000 earned in the first quarter of 2006 related to a management fee incentive payment received in connection with the sale of one of our managed properties during 2006. We expect management fee income to increase during the remainder of 2007 as a result of the management agreement we currently have in place to manage the six properties that we have or will transfer into a joint venture with Fidelity Real Estate Group during the second quarter of 2007, and as we continue to pursue new third-party management agreements throughout 2007.

*Expenses.* Property operating expenses increased from \$1.5 million during the three months ended March 31, 2006 to \$2.1 million during the three months ended March 31, 2007, primarily due to expenses attributable to the Company's acquisition of 21 properties in 2006, of which six were acquired during the first quarter of 2006. These expenses are comprised of payroll and general and administrative expenses directly associated with the operations of the Company's owned and managed portfolios. While those employees who are directly responsible for the oversight of specific properties are charged directly to the Student Housing Owned segment, this segment staffs a full operations department. This department includes those employees responsible for portfolio oversight, which includes regional vice presidents, regional property managers, regional leasing specialists and the associated expenses such as travel directly related to those employees who perform this function. Such expenses are considered part of our student housing management operation.

Reimbursed expenses, which includes related party and third party managed properties remained relatively consistent during the three months ended March 31, 2007 as compared to the same period in the prior year. Reimbursed expenses are comprised mostly of payroll expenses for on-site employees.

Income taxes for the three months ended March 31, 2007 amounted to \$68,000 versus no income tax expense as compared to the same period in the prior year. Income taxes consist primarily of taxes associated with the operations of our student housing taxable REIT subsidiary, which manages properties for third parties.

#### *Military Housing*

*Revenue.* Expense reimbursements increased to \$17.3 million for the three months ended March 31, 2007 as compared to \$13.2 million for the three months ended March 31, 2006. The increase is due primarily to the reimbursement of closing and transition expenses at our AETC Group I project, which commenced operations in February 2007, and

increases in reimbursement of renovation expenses at our Fort Stewart/Hunter, Fort Carson, Fort Gordon, Carlisle/Picatinny and AETC Group I projects, offset by declines in reimbursement of renovation expenses at our Navy Northeast Region, Fort Eustis/Fort Story, and Fort Bliss/White Sands Missile Range projects. The table below sets forth certain information

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regarding the revenue from expense reimbursements for each of our military housing projects for the three months ended March 31, 2007 and 2006.

Project	2007 (in millions)	2006
<b>Expense Reimbursements</b>		
Fort Stewart and Hunter Army Airfield Project	\$ 2.1	\$ 1.2
Fort Carson Project	0.9	0.6
Fort Hamilton Project	0.1	0.1
Walter Reed Army Medical Center and Fort Detrick Project	0.2	0.2
Fort Eustis/Fort Story Project	0.8	1.2
Navy Northeast Region Project	4.8	7.3
Fort Bliss/White Sands Missile Range Project	1.9	2.6
Fort Gordon Project(1)	0.4	
Carlisle/Picatunny Project(1).	1.3	
AETC Group I (2)	4.8	
Total expense reimbursements	\$ 17.3	\$ 13.2

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- (1) The Fort Gordon project commenced operations in the second quarter of 2006 and the Carlisle/Picatunny project commenced operations in the third quarter of 2006.
- (2) The AETC Group I project commenced operations in the first quarter of 2007 and included \$4.1 million of transition cost reimbursements.

Management fees from related parties increased to \$2.4 million for the three months ended March 31, 2007 compared to \$2.0 million for the three months ended March 31, 2006. The amount of management fees from related parties that we receive during a fiscal period is affected by the number of housing units that we manage under our military housing projects during that period, which fluctuates based on the number of housing units that we construct/renovate or demolish during that period. Management fees from related parties increased during the three months ended March 31, 2007 as compared to the three months ended March 31, 2006, primarily due to increased occupancy and rental activity at our Fort Stewart/Hunter project, the commencement of our Fort Gordon and Carlisle/Picatunny projects in the second quarter of 2006, and the commencement of our AETC Group I project in the first quarter of 2007. The table below sets forth certain information regarding the revenue from management fees from related parties for each of our military housing projects for the three months ended March 31, 2007 and 2006.

Project	2007 (in millions)	2006
Fort Stewart and Hunter Army Airfield Project	\$ 0.4	\$ 0.3
Fort Carson Project	0.3	0.4
Fort Hamilton Project	0.1	
Walter Reed Army Medical Center and Fort Detrick Project	0.1	0.1
Fort Eustis/Fort Story Project	0.1	0.1
Navy Northeast Region Project	0.8	0.8
Fort Bliss/White Sands Missile Range Project	0.3	0.3
Fort Gordon Project(1)	0.1	
Carlisle/Picatunny Project(1)	0.1	
AETC Group I Project (2)	0.1	
Total	\$ 2.4	\$ 2.0

- (1) The Fort Gordon project commenced operations in the second quarter of 2006 and we commenced management operations for the Carlisle/Picatunny project in the second quarter of 2006.
- (2) The AETC Group I project commenced in the first quarter of 2007.

Other fee income from related parties, which includes development and construction/renovation fees and business development fees, totaled \$6.1 million for the three months ended March 31, 2007, as compared to \$4.7 million for the same period in 2006. Of the 2007 amount, \$5.1 million related to development and construction/renovation fees, and \$1.0 million related to business development fees. The amount of other fee income from related parties that we receive during a fiscal period is affected by the number of housing units that we construct or renovate under our military housing projects during that period, which will fluctuate based on the point at which we are during the initial development period for the project. Generally, the majority of new construction work is completed during the beginning years of an initial development period while construction/renovation work is completed throughout the initial development period. Other fee income from related parties increased during the three months ended March 31, 2007, as

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compared to the three months ended March 31, 2006 primarily due to increases in construction activities at our Fort Eustis/Fort Story projects and Fort Bliss/White Sands projects, and the commencement of our AETC I project in the first quarter of 2007, offset by decreases in construction activity at our Navy Northeast Region project, our Fort Stewart/Hunter project, and our Fort Hamilton project. Business development fees decreased to \$1.0 million for the three months ended March 31, 2007, as compared to \$1.1 million for the same period in 2006 primarily due to the expiration of one of our business development agreements at December 31, 2006. The table below sets forth certain information regarding the revenue from other fee income from related parties for each of our military housing projects for the three months ended March 31, 2007 and 2006.

Project	2007 (in millions)	2006
<b>Development and Construction/Renovation Fees</b>		
Fort Stewart and Hunter Army Airfield Project	\$ 0.2	\$ 0.5
Fort Carson Project	0.2	0.1
Fort Hamilton Project		0.2
Walter Reed Army Medical Center and Fort Detrick Project	0.2	0.1
Fort Eustis/Fort Story Project	0.7	0.4
Navy Northeast Region Project	1.0	1.5
Fort Bliss/White Sands Missile Range Project	1.0	0.8
Fort Gordon Project(1)	0.6	
Carlisle/Picatunny Project(1)	0.1	
AETC I (2)	1.1	
<b>Total Development and Construction Fees</b>	<b>\$ 5.1</b>	<b>\$ 3.6</b>
Business Development Fees	\$ 1.0	\$ 1.1
Total Other Fee Income Related Parties	\$ 6.1	\$ 4.7

(1) The Fort Gordon project commenced operations in the second quarter of 2006 and the Carlisle/Picatunny project commenced operations in the third quarter of 2006.

(2) The AETC Group I project commenced operations in the first quarter of 2007.

Equity in earnings of unconsolidated entities, consisting of equity income and preferred returns from our military housing project joint ventures, totaled \$1.0 million for the three months ended March 31, 2007 as compared to \$1.2 million for the three months ended March 31, 2006. The decrease was primarily due to timing differences in the recognition of the net operating income cash flows from the Fort Carson Family Housing LLC, upon which a portion of our returns are calculated., offset by an increase in preferred returns earned on our AETC Group I project. The table below sets forth certain information regarding equity in earnings of unconsolidated entities for the three months ended March 31, 2007 and 2006.

Project	2007 (in millions)	2006
Fort Carson Project	\$ 0.7	\$ 1.0
Navy Northeast Region Project	0.2	0.2
AETC Group I Project (1)	0.1	
Total	\$ 1.0	\$ 1.2

(1) The AETC Group I project commenced operations in the first quarter of 2007.

*Expenses.* Property operating expenses include costs related to operating the military housing segment of our business, such as the compensation expense related to our military housing personnel located in our corporate headquarters. These costs increased to \$2.0 million in for the three months ended March 31, 2007 from \$1.5 million in the three months ended March 31, 2006. The increase was due to increases in (i) our renovation company operations and (ii) in management and administrative expenses related to our overall expansion of our business.



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Reimbursed expenses increased to \$17.3 million for the three months ended March 31, 2007 from \$13.2 million for the three months ended March 31, 2006 primarily due to payroll and renovation expenses related to the ten military housing projects in operation as of March 31, 2007 as compared with the seven military housing projects in operation as of March 31, 2006, offset by anticipated declines in construction and renovation activity at certain projects.

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*Income Taxes.* The effective tax rate on income taxes resulting from the portion of income that is earned in our Military Housing taxable REIT subsidiary remained relatively consistent at 36.0% in 2007 versus 35.5% in 2006.

*Corporate*

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Rental revenue and expense reimbursements, which were recognized with respect to the portion of our corporate headquarters leased to entities affiliated with Gary M. Holloway, Sr., and payroll and related expenses reimbursed by entities affiliated with Mr. Holloway for the provision of common services, remained relatively consistent during the three months ended March 31, 2007 and 2006.

Other income, consisting primarily of interest income, increased by \$140,000 primarily due to increased overnight cash investments.

Administrative expenses, primarily relating to management of our corporate office, accounting, legal, human resources, information technology and acquisition departments, increased to \$4.9 million in 2007 from \$4.1 million in 2006, primarily due to increases in professional fees, training costs associated with implementation of new leasing software relating to our Student Housing division as well as other one time software licensing costs, and an increase in other taxes.

Audit Committee and special investigation expenses consist of legal fees, forensic accounting fees and waiver fees associated with waivers of the covenants under our former line of credit with Wachovia Bank, incurred as a result of delays in the filings of reports with the SEC in connection with the special investigation performed by our Audit Committee and its independent counsel that commenced in the first quarter of 2006. During the three months ended March 31, 2006, these fees totaled \$2.6 million. The special investigation was completed during the third quarter of 2006.

Depreciation, relating primarily to our corporate assets remained relatively consistent between the three months ended March 31, 2007 and 2006.

Interest expense increased to \$1.5 million in 2007 from \$0.5 million in 2006, primarily due to an increase in amortization of deferred financing costs of approximately \$1.0 million associated with our line of credit with Wachovia Bank that was entered into in October 2006.

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Comparison of the year ended December 31, 2006 to the year ended December 31, 2005

	Year Ended December 31, 2006					Total
	Student Housing Owned Properties	Student Housing Management	Military Housing	Corporate	Eliminations	
<b>Revenue:</b>						
Rent and other property income	\$ 170,665	\$	\$	\$ 156	\$	\$ 170,821
Expense reimbursements:						
Related party		390	63,622	218		64,230
Third party		6,013				6,013
Management fees:						
Management fees owned properties		6,592			(6,592 )	
Related party		93	8,388			8,481
Third party		3,167				3,167
Other fee income-related party			21,635			21,635
Other income	207	35	72	232		546
Total revenue	170,872	16,290	93,717	606	(6,592 )	274,893
<b>Operating Expenses:</b>						
Property operating expense	67,615	6,516	6,402			80,533
Intercompany management fees	6,592				(6,592 )	
Reimbursed expenses		6,403	63,622	218		70,243
Real estate taxes	15,953			97		16,050
Administrative expenses				17,682		17,682
Audit Committee and Special Committee expenses				7,821		7,821
Profits interest and employee initial public offering bonus expense						
Depreciation and amortization	39,361		444	402		40,207
Interest	46,670			5,082		51,752
Total operating expenses	176,191	12,919	70,468	31,302	(6,592 )	284,288
(Loss) income before equity in earnings of unconsolidated entities, minority interest and income taxes from continuing operations	(5,319 )	3,371	23,249	(30,696 )		(9,395 )
Equity in earnings of unconsolidated entities			3,523			3,523
(Loss) income before minority interest and income taxes from continuing operations	(5,319 )	3,371	26,772	(30,696 )		(5,872 )
Income tax expense (benefit)		(337 )	5,070			4,733
(Loss) income before minority interest from continuing operations	(5,319 )	3,708	21,702	(30,696 )		(10,605 )
Minority interest				(4,625 )		(4,625 )
<b>(Loss) income from continuing operations</b>	<b>(5,319 )</b>	<b>3,708</b>	<b>21,702</b>	<b>(26,071 )</b>		<b>(5,980 )</b>
<b>Discontinued Operations:</b>						
Income from discontinued operations before minority interest	1,064	698				1,762
Minority interest attributable to discontinued operations				768		768
	1,064	698		(768 )		994

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Income (loss) from discontinued  
operations

Net (loss) income	\$ (4,255 )	\$ 4,406	\$ 21,702	\$ (25,303 )	\$ (4,986 )
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	Year Ended December 31, 2005					
	Student Housing Owned Properties	Student Housing Management	Military Housing	Corporate	Eliminations	Total
<b>Revenue:</b>						
Rent and other property income	\$ 119,207	\$	\$	\$ 245	\$	\$ 119,452
Expense reimbursements:						
Related party		176	57,436	318		57,930
Third party		4,650				4,650
Management fees:						
Management fees owned properties		4,643			(4,643 )	
Related party		197	6,808			7,005
Third party		3,774				3,774
Other fee income-related party		290	18,000	31		18,321
Other income	113	19	108	128		368
Total revenue	119,320	13,749	82,352	722	(4,643 )	211,500
<b>Operating Expenses:</b>						
Property operating expense	43,507	4,196	4,431			52,134
Intercompany management fees	4,643				(4,643 )	
Reimbursed expenses		4,826	57,436	318		62,580
Real estate taxes	10,921					10,921
Administrative expenses				12,254		12,254
Audit Committee and Special Committee expenses						
Profits interest and employee initial public offering bonus expense						
Depreciation and amortization	30,187		299	520		31,006
Interest	26,838			1,532		28,370
Total operating expenses	116,096	9,022	62,166	14,624	(4,643 )	197,265
Income (loss) before equity in earnings of unconsolidated entities, minority interest and income taxes from continuing operations	3,224	4,727	20,186	(13,902 )		14,235
Equity in earnings of unconsolidated entities			3,073			3,073
Income (loss) before minority interest and income taxes from continuing operations	3,224	4,727	23,259	(13,902 )		17,308
Income tax expense		66	5,514			5,580
Income (loss) before minority interest from continuing operations	3,224	4,661	17,745	(13,902 )		11,728
Minority interest				5,700		5,700
<b>Income (loss) from continuing operations</b>	3,224	4,661	17,745	(19,602 )		6,028
<b>Discontinued Operations:</b>						
(Loss) income from discontinued operations before minority interest	(438 )	498				60
Minority interest attributable to discontinued operations				29		29
(Loss) income from discontinued operations	(438 )	498		(29 )		31

Net income (loss)	\$ 2,786	\$ 5,159	\$ 17,745	\$ (19,631 )	\$ 6,059
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### *Student Housing Owned Properties*

*Revenue.* Of the 69 properties owned and included in the results from continuing operations as of December 31, 2006 (not including two properties held through a joint venture), we acquired 20 and 22 of the student housing properties during 2006 and 2005, respectively. Rent and other property income from these 69 properties totaled \$170.7 million in 2006. Rent and other property income from continuing operations from the 49 properties we owned as of December 31, 2005 was \$119.2 million in 2005. The increase in rent and other property income from continuing operations experienced during 2006 relates primarily to (i) the presentation of a full year of operations during 2006 with respect to the 22 properties acquired in 2005, and (ii) the acquisition of an additional 20 properties during 2006. Although we generally seek rent increases that will exceed projected increases in property operating expenses, increases in our property operating expenses exceeded our rent increases from 2005 to 2006, primarily as a result of increases in repairs and maintenance costs, bad debt expense, utility expenses and real estate taxes incurred during 2006. In future periods, our net income will be negatively affected to the extent property operating expenses are higher than those projected by our management for such period prior to lease execution for the applicable academic year.

We owned 27 properties which are included in our results from continuing operations during the years ended December 31, 2006 and 2005, referred to herein as our same store properties, our revenues decreased \$2.8 million, or 3.2%, in 2006 as compared to 2005. Our revenues were adversely affected by six of these same store properties (which we refer to as the focus properties) that did not achieve the economic occupancy levels we had targeted upon commencement of the 2006-2007 academic year. We believe that these lower than anticipated leasing results are temporary in nature at all of these six focus properties, and we have committed resources to improving their occupancy levels. Our same store revenues, excluding the six focus properties referred to above, increased \$0.2 million, or 0.4% , in 2006 as compared to the prior year.

Other income from continuing operations increased slightly to \$207,000 in 2006 from \$113,000 in 2005. This other income consisted primarily of interest income on invested cash.

*Expenses.* Property operating expenses from continuing operations increased to \$67.6 million in 2006 from \$43.5 million in 2005, primarily due to expenses attributable to the 20 properties acquired in 2006 and our ownership and operation for a full year during 2006 of properties acquired in 2005. The increase of \$24.1 million is attributable to the following: a \$9.3 million increase in utilities expenses; a \$3.2 million increase in turnover and repairs and maintenance expenses; a \$5.2 million increase in payroll expenses at the property level; a \$0.9 million increase in bad debt expense relating to uncollected rents and other income; and a \$5.5 million increase in the property expenses, consisting of marketing, insurance, landscaping and other similar property operating expenses.

With respect to our same store properties, we experienced an increase in property operating expenses of approximately \$2.9 million in 2006. Of this increase, \$1.6 million relates to utilities; \$0.2 million relates to marketing costs; \$0.3 million relates to payroll expenses associated with the hiring of additional staff at the property level; \$0.4 million relates to bad debt expense associated with uncollected rents; and \$0.4 million relates to an increase in other property operating expenses.

We have implemented new policies and procedures relating to capital spending and maintenance, as well as purchasing activities, that are designed to assist with cost containment of future repairs and maintenance expenditures at our properties. We also recently placed a renewed emphasis on our rent collection, which we believe should result in lower bad debt expense in future periods.

Real estate taxes from continuing operations increased to \$16.0 million in 2006 from \$10.9 million in 2005, primarily due to the acquisition of 20 properties in 2006 and the full year of real estate taxes with respect to the 22 properties we acquired during 2005. Of the \$5.1 million increase we experienced in real estate taxes, approximately \$0.5 million is specifically related to our same store properties, of which \$0.1 million relates to the six focus properties.

Depreciation and amortization from continuing operations increased to \$39.4 million as compared to \$30.2 million in 2005, primarily as a result of acquiring 20 properties in 2006 for an aggregate purchase price of \$409.7 million, as well as the inclusion of a full year of depreciation expense relating to the 22 properties acquired during 2005. The \$39.4 million in 2006 is comprised of \$34.6 million of depreciation and \$4.8 million of lease intangible amortization.

Interest expense from continuing operations increased to \$46.7 million in 2006 from \$26.8 million in 2005, as a result of incurring additional debt, including placement of new mortgage debt and the assumption of existing mortgage debt, as well as borrowings under our line of credit, in connection with the acquisition of 20 properties in 2006. During 2006, we placed \$266.8 million of new mortgage debt, assumed \$46.5 million of existing mortgage debt, net of premiums, and increased borrowings under our credit lines by approximately \$163.4 million. For more information regarding the amount of fixed-rate and variable-rate indebtedness we held as of December 31, 2006, see the section titled *Quantitative and Qualitative Disclosures About Market Risk* below.

#### ***Student Housing Management***

*Revenue* Expense reimbursements from related parties from continuing operations increased to \$390,000 in 2006 from \$176,000 in 2005. As of December 31, 2006, the Company no longer manages student housing properties for related parties as the one property that we managed for a related party was sold during December 2006.

Expense reimbursements from third parties from continuing operations increased to \$6.0 million in 2006 from \$4.7 million in 2005, primarily due to an increase in payroll expenses related to an increase in overall head count for managed student housing properties in 2006 over 2005. Although we will continue to pursue new third-party management agreements during 2007, we expect expense reimbursements from third parties to contribute less significantly as a percentage of overall revenue going forward, as a result of our increased focus on operations of our own properties and the continued growth in rental revenue that we expect to generate from the full year operations of properties we acquired during 2006, as well as additional properties we acquire in the future.



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Management fee income from related parties decreased to \$93,000 in 2006 from \$197,000 in 2005. As of December 31, 2006, the Company no longer manages student housing properties for related parties.

Management fee income from third parties decreased from \$3.8 million in 2005 to \$3.2 million in 2006. We recorded a one-time management fee of \$0.8 million that was paid and recognized in 2005 for deferred management fees paid in connection with the sale of the managed property by the third party owner. Excluding the \$0.8 million of management fees earned in 2005, management fees would have increased by \$0.2 million. Although we will continue to pursue new third-party management agreements during 2007, we expect management fees to contribute less significantly as a percentage of overall revenue going forward.

Other fee income from related parties was \$290,000 in 2005. We did not earn other fee income from related parties in 2006. We anticipate that we will generate such revenue during 2007, as a result of fees that we expect to earn from providing development and management services to joint ventures with third-parties that we enter into to finance the development and construction of additional student housing properties.

*Expenses.* Property operating expenses increased from \$4.2 million in 2005 to \$6.5 million in 2006, due to the acquisition of 21 properties in 2006. These expenses are comprised of payroll and general and administrative expenses directly associated with the operations of the Company's owned and managed portfolios. While those employees who are directly responsible for the oversight of specific properties are charged directly to the Student Housing Owned segment, this segment staffs a full operations department. This department includes those employees responsible for portfolio oversight, which includes regional vice presidents, regional property managers, regional leasing specialists and the associated expenses such as travel directly related to those employees who perform this function. Such expenses are considered part of our student housing management operation.

Reimbursed expenses, which includes related party and third party managed properties, increased to \$6.4 million in 2006 from \$4.8 million in 2005. Reimbursed expenses are comprised mostly of payroll expenses for on-site employees. This increase is due to an increase in overall headcount as a result of additional properties managed in 2006 over 2005.

Income taxes amounted to a tax benefit of \$337,000 in 2006 as compared to the tax expense of \$66,000 in 2005. Income taxes consist primarily of taxes associated with the operations of our student housing taxable REIT subsidiary, which manages properties for third parties. The tax benefit is due to a taxable loss recognized during 2006.

### *Military Housing*

*Revenue.* Expense reimbursements totaled \$63.6 million in 2006 as compared to \$57.4 million in 2005. This increase was primarily due to payroll and renovation expenses related to the nine military housing projects in operation as of December 31, 2006 as compared with the seven military housing projects in operation as of December 31, 2005; and closing costs and transition expenses for our Fort Gordon project, which commenced operations in May 2006; and closing costs and transition expenses for our Carlisle/Picatinny project. We also experienced an increase in expense reimbursements in 2006 as a result of greater renovation activities at our Fort Bliss/White Sands and Navy Northeast Region projects. This increase was offset by decreases at our Fort Stewart/Hunter, Walter Reed Army Medical Center and Fort Detrick projects caused by anticipated declines in construction and renovation activities, as well as by decreases at our Fort Carson project due to changes in the terms of the management contract in December 2005, which resulted in fewer reimbursable expenses being incurred directly by the project.

Project	2006 (in millions)	2005
<b>Expense Reimbursements</b>		
Fort Stewart and Hunter Army Airfield Project	\$ 5.4	\$ 9.4
Fort Carson Project	2.7	6.9
Fort Hamilton Project	1.1	0.5
Walter Reed Army Medical Center and Fort Detrick Project	0.8	1.4
Fort Eustis/Fort Story Project	4.6	4.7
Navy Northeast Region Project	33.3	29.0
Fort Bliss/White Sands Missile Range Project(1)	11.5	5.5
Fort Gordon Project(2)	2.4	

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Carlisle/Picatunny Project(2).	1.8		
Total expense reimbursements	\$ 63.6	\$ 57.4	

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- (1) Commenced operations in the third quarter of 2005.
- (2) The Fort Gordon project commenced operations in the second quarter of 2006, and the Carlisle/Picatunny project commenced operations in the third quarter of 2006.

Management fees from related parties totaled \$8.4 million in 2006 as compared to \$6.8 million in 2005. The table below sets forth certain information regarding the revenue from management fees from related parties for each of our military housing projects for 2006 and 2005. The amount of management fees from related parties that we receive during a fiscal period is affected by the number of housing units that we manage under our military housing projects during that period, which number will fluctuate based on the number of housing units that we construct/renovate or demolish during that period. Management fees from related parties increased during 2006 as compared to 2005 primarily due to full year operation of our Fort Bliss/White Sands Missile Range project which started during the third quarter of 2005, as well as due to increased occupancy and rental activity at our Fort Stewart/Hunter project, and the commencement of our Fort Gordon project and Carlisle/Picatunny project, during the second quarter of 2006.

Project	2006 (in millions)	2005
Fort Stewart and Hunter Army Airfield Project	\$ 1.4	\$ 1.0
Fort Carson Project	1.2	1.2
Fort Hamilton Project	0.2	0.2
Walter Reed Army Medical Center and Fort Detrick Project	0.3	0.2
Fort Eustis/Fort Story Project	0.5	0.5
Navy Northeast Region Project	3.2	3.2
Fort Bliss/White Sands Missile Range Project(1)	1.3	0.5
Fort Gordon Project(2)	0.1	
Carlisle/Picatunny Project(2)	0.2	
Total	\$ 8.4	\$ 6.8

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- (1) Commenced operations in the third quarter of 2005.
- (2) The Fort Gordon project commenced operations in the second quarter of 2006, and we commenced management operations for the Carlisle/Picatunny project in the second quarter of 2006.

Other fee income from related parties, which includes development and construction fees and business development fees, totaled \$21.6 million in 2006 as compared to \$18.0 million in 2005. The table below sets forth certain information regarding the revenue from other fee income from related parties for each of our military housing projects for 2006 and 2005. The amount of other fee income from related parties that we receive during a fiscal period is affected by the level of housing unit development and construction that we perform under our military housing projects during that period. Other fee income from related parties increased during 2006, as compared to 2005, primarily due to (i) increased construction/renovation activity relating to our Navy Northeast Region and Fort Eustis/Fort Story projects, (ii) commencement of operations relating to our Fort Bliss/White Sands Missile Range project during the third quarter of 2005, (iii) commencement of operations at our Fort Gordon and Carlisle/Picatunny project during the second quarter of 2006 and (iv) the commencement of an expansion at our Fort Carson project during the fourth quarter of 2006. These increases were offset by previously expected declines in activities at our Fort Stewart/Hunter project and our Walter Reed Army Medical Center and Fort Detrick project.

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Project	2006 (in millions)	2005
<b>Development and Construction/Renovation Fees</b>		
Fort Stewart and Hunter Army Airfield Project	\$ 1.6	\$ 3.9
Fort Carson Project	0.8	0.3
Fort Hamilton Project	0.6	0.9
Walter Reed Army Medical Center and Fort Detrick Project	0.5	1.2
Fort Eustis/Fort Story Project	1.8	1.1
Navy Northeast Region Project	6.9	4.5
Fort Bliss/White Sands Missile Range Project(1)	3.6	2.1
Fort Gordon Project(2)	1.0	
Carlisle/Picatunny Project(2)	0.4	-
Total development and construction/renovation fees	\$ 17.2	\$ 14.0
<b>Business Development Fees</b>	\$ 4.4	\$ 4.0
<b>Total Other Fee Income Related Parties</b>	\$ 21.6	\$ 18.0

(1) Commenced operations in the third quarter of 2005.

(2) The Fort Gordon project commenced operations in the second quarter of 2006, and the Carlisle/Picatunny project commenced operations in the third quarter of 2006.

Equity in earnings of unconsolidated entities, which includes preferred returns from military housing project joint ventures, totaled \$3.5 million and \$3.1 million in 2006 and 2005, respectively. Of the amount for 2006, \$0.9 million related to the preferred returns from our Navy Northeast Region project, and \$2.6 million related to our investment in the Fort Carson project. Of the 2005 amount, \$1.0 million related to preferred returns from our Navy Northeast Region project, and \$2.1 million related to our investment in the Fort Carson project.

*Expenses.* Property operating expenses include costs related to operating the military housing segment of our business, such as the compensation expense related to our military housing personnel located in our corporate headquarters. These costs increased to \$6.4 million in 2006 from \$4.4 million in 2005. The increase was due to (i) increases in our renovation company operations, (ii) increases in management and administrative expenses related to our overall expansion of our business, and (iii) a favorable adjustment of \$0.8 million in 2005 relating to expense reimbursements of 2004 costs associated with the exclusive negotiation-related costs we incurred prior to the closing of the Fort Eustis/Fort Story project.

Reimbursed expenses increased to \$63.6 million in 2006 from \$57.4 million in 2005 primarily due to payroll and renovation expenses related to the nine military housing projects in operation as of December 31, 2006 as compared with the seven military housing projects in operation as of December 31, 2005, offset by anticipated declines in construction and renovation activity at certain projects as well as by decreases at our Fort Carson project due to changes in the terms of the management contract in December 2005.

*Income Taxes.* The effective tax rate on income taxes remained relatively consistent at 35.5% in 2006 versus 35.1% in 2005.

#### *Corporate*

Rental revenue and expense reimbursements, which were recognized with respect to the portion of our corporate headquarters leased to entities affiliated with Gary M. Holloway, Sr., and payroll and related expenses reimbursed by entities affiliated with Mr. Holloway for the provision of common services, remained relatively consistent during the years ending December 31, 2006 and 2005.

Other income, consisting primarily of interest income, remained substantially the same during the years ending December 31, 2006 and 2005.

Administrative expenses, primarily relating to management of our corporate office, accounting, legal, human resources, information technology and acquisition department, increased to \$17.7 million in 2006 from \$12.3 million in 2005, primarily due to increased staffing resulting from growth in our operating segments, additional costs incurred in connection with the transition of financial management and an increase in professional fees.



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Audit Committee and Special Committee expenses consist of legal fees, forensic accounting fees and waiver fees associated with waivers of the covenants under our former credit facility, incurred as a result of delays in the filings of reports with the SEC in connection with the special investigation performed by our Audit Committee and its independent counsel that commenced in the first quarter of 2006, and legal and financial advisory and Special Committee fees associated with the activities of the Special Committee to explore strategic alternatives for the Company. During the year ended December 31, 2006, these fees totaled \$7.8 million. The special investigation was completed during the third quarter of 2006, and the Special Committee was dissolved in December 2006.

Depreciation, relating primarily to our corporate assets, decreased to \$0.4 million in 2006 from \$0.5 million in 2005, primarily due to the transfer of the corporate aircraft in February 2005 to Mr. Holloway.

Interest expense increased to \$5.1 million in 2006 from \$1.5 million in 2005, primarily due to a \$1.1 million write-off of deferred costs associated with our former line of credit with Bank of America, which was terminated and replaced with a new line of credit with Wachovia Bank in October 2006, amortization of \$1.7 million of deferred costs associated with our new line of credit, as well as increased outstanding borrowings under our lines of credit coupled with an increase in interest rates.

*Comparison of the year ended December 31, 2005 to the year ended December 31, 2004*

	Year Ended December 31, 2005					
	Student Housing-Owned Properties	Student Housing Management	Military Housing	Corporate	Eliminations	Total
<b>Revenue:</b>						
Rent and other property income	\$ 119,207	\$	\$	\$ 245	\$	\$ 119,452
Expense reimbursements:						
Related party		176	57,436	318		57,930
Third party		4,650				4,650
Management fees:						
Management fees owned properties		4,643			(4,643)	
Related party		197	6,808			7,005
Third party		3,774				3,774
Other fee income-related party		290	18,000	31		18,321
Other income	113	19	108	128		368
Total revenue	119,320	13,749	82,352	722	(4,643)	211,500
<b>Operating Expenses:</b>						
Property operating expenses	43,507	4,196	4,431			52,134
Intercompany management fees	4,643				(4,643)	
Reimbursed expenses		4,826	57,436	318		62,580
Real estate taxes	10,921					10,921
Administrative expenses				12,254		12,254
Profits interest and employee initial public offering bonus expense						
Depreciation and amortization	30,187		299	520		31,066
Interest	26,838			1,532		28,370
Total operating expenses	116,096	9,022	62,166	14,624	(4,643)	197,265
Income (loss) before equity in earnings of unconsolidated entities and income taxes from continuing operations	3,224	4,727	20,186	(13,902)		14,235
Equity in earnings of unconsolidated entities			3,073			3,073
Income (loss) before income taxes from continuing operations	3,224	4,727	23,259	(13,902)		17,308
Income taxes		66	5,514			5,580
Income (loss) before minority interest from continuing operations	3,224	4,661	17,745	(13,902)		11,728

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Minority interest				5,700		5,700
<b>Income (loss) from continuing operations</b>	3,224	4,661	17,745	(19,602 )		6,028
<b>Discontinued Operations:</b>						
(Loss) income from discontinued operations before minority interest	(438 )	498				60
Minority interest attributable to discontinued operations				29		29
(Loss) income from discontinued operations	(438 )	498		(29 )		31
<b>Net income (loss)</b>	\$ 2,786	\$ 5,159	\$ 17,745	\$ (19,631 )	\$	\$ 6,059

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	Year Ended December 31, 2004					
	Student Housing- Owned properties	Student Housing Management	Military Housing	Corporate	Eliminations	Total
<b>Revenue:</b>						
Rent and other property income	\$ 23,413	\$	\$	\$ 399	\$	\$ 23,812
<b>Expense reimbursements:</b>						
Related party		1,140	31,822	347		33,309
Third party		7,203				7,203
<b>Management fees:</b>						
Management fees owned properties		950			(950)	
Related party		1,458	2,897			4,355
Third party		3,986				3,986
Other fee income-related party			8,460			8,460
Other income	32	92	393	396		913
Total revenue	23,445	14,822	43,572	1,142	(950)	82,038
<b>Operating Expenses:</b>						
Property operating expenses	8,524	5,271	6,497			20,292
Intercompany management fees	950				(950)	
Reimbursed expenses		8,343	31,822	347		40,512
Real estate taxes	1,736					1,736
Administrative expenses				6,006		6,006
Profits interest and employee initial public offering bonus expense				37,502		37,502
Depreciation and amortization	5,684		25	915		6,624
Interest	5,129			493		5,622
Total operating expenses	22,024	13,614	38,344	45,263	(950)	118,294
<b>Income (loss) before equity in earnings of unconsolidated entities and income taxes from continuing operations</b>						
	1,422	1,215	5,228	(44,121)		(36,256)
<b>Equity in earnings of unconsolidated entities</b>						
<b>Income (loss) before income taxes from continuing operations</b>						
	1,422	1,215	5,228	(44,121)		(36,256)
<b>Income taxes</b>						
		33	279			312
<b>Income (loss) before minority interest</b>						
	1,422	1,182	4,949	(44,121)		(36,568)
<b>Minority interest</b>						
				256		256
<b>Income (loss) from continuing operations</b>						
	1,422	1,182	4,949	(44,377)		(36,824)
<b>Discontinued Operations:</b>						
<b>(Loss) income from discontinued operations before minority interest</b>						
	(265)	78				(187)
<b>Minority interest attributable to discontinued operations</b>						
				(9)		(9)
<b>(Loss) income from discontinued operations</b>						
	(265)	78		(9)		(178)
<b>Net income (loss)</b>	\$ 1,157	\$ 1,260	\$ 4,949	\$ (44,368)	\$	\$ 37,002

**Student Housing Owned Properties**

*Revenue.* Of the 49 properties owned and included in the results from continuing operations as of December 31, 2005, we acquired 27 of the student housing properties during 2004 and the remaining 22 properties during 2005. Rent and other property income from continuing operations from these 49 properties totaled \$119.2 million in 2005. Rent and other property income from continuing operations from the 27 properties we owned as of December 31, 2004 was \$23.4 million in 2004. The increase in rent and other property income from continuing operations experienced during 2005 relates primarily to (i) the presentation of a full year of operations during 2005 with respect to the 27 properties acquired in 2004, and (ii) the acquisition of an additional 22 properties during 2005. Although we generally seek rent increases that will exceed projected increases in property operating expenses, increases in our property operating expenses exceeded our rent increases from 2004 to 2005, primarily as a result of increases in utility expenses and real estate taxes experienced during 2005 that were greater than what we had anticipated when establishing rental rates.

Other income from continuing operations increased to \$113,000 in 2005 from \$32,000 in 2004. This other income consisted primarily of interest income on invested cash.



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*Expenses.* Property operating expenses from continuing operations increased to \$43.5 million in 2005 from \$8.5 million in 2004, primarily due to expenses attributable to the 22 properties acquired in 2005 and our ownership and operation throughout 2005 of the 27 properties acquired in 2004.

Real estate taxes from continuing operations increased to \$10.9 million in 2005 from \$1.7 million in 2004 primarily due to the acquisition of 22 properties in 2005 and the full year of real estate taxes with respect to the 27 properties we owned as of December 31, 2004.

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Depreciation and amortization from continuing operations increased to \$30.2 million in 2005 from \$5.7 million in 2004 primarily as a result of acquiring 22 properties in 2005 for an aggregate purchase price of \$507.3 million. The \$30.2 million in 2005 is comprised of \$23.0 million of depreciation and \$7.2 million of lease intangible amortization.

Interest expense from continuing operations increased to \$26.8 million in 2005 from \$5.1 million in 2004 as a result of incurring additional debt, including placement of new mortgage debt and the assumption of existing mortgage debt, as well as borrowings under our line of credit, in connection with the acquisition of 22 properties in 2005. During 2005, we placed \$274.3 million of new mortgage debt, assumed \$118.9 million of existing mortgage debt, and increased borrowings under our line of credit by a net of \$36.0 million.

#### ***Student Housing Management***

*Revenue.* Expense reimbursements from related parties from continuing operations decreased to \$0.2 million in 2005 from \$1.1 million in 2004, primarily due to our acquisition in March 2005 from related parties of two student housing properties that we managed prior to purchase. In addition, in March 2005, we ceased managing an additional student housing property owned by a related party upon the sale of the property.

Expense reimbursements from third parties from continuing operations decreased to \$4.7 million in 2005 from \$7.2 million in 2004, primarily due to our ceasing in 2005 to provide services to five student housing properties owned by third parties upon the sale of the properties.

Management fee income from related parties from continuing operations decreased to \$0.2 million in 2005 from \$1.5 million in 2004. The decrease in management fee income was primarily due to our acquisition in March 2005 from related parties of two student housing properties that we managed prior to purchase. In addition, in March 2005 we ceased managing an additional student housing property owned by a related party upon the sale of the property.

Management fee income from third parties from continuing operations decreased from \$4.0 million in 2004 to \$3.8 million in 2005, which income included an increase of \$0.8 million related to our recognition of a one-time management fee in 2005 that had not been previously recognized because it was deemed to be uncollectible and was paid to us upon the sale of the property by the third party owner, and which was partially offset by our ceasing to manage five student housing properties owned by third parties upon the sale of the properties.

Other fee income from related parties from continuing operations in 2005 was \$290,000 compared to no other fee income in 2004.

*Expenses.* Property operating expenses from continuing operations decreased from \$5.3 million in 2004 to \$4.2 million in 2005. These expenses are comprised of payroll and general and administrative expenses directly associated with the operations of our owned and managed portfolios. The amounts for 2004 include those costs incurred for the predecessor entities from January 2004 through November 1, 2004 and the various management businesses we operated at that time.

Reimbursed expenses from continuing operations decreased to \$4.8 million in 2005 from \$8.3 million in 2004, primarily due to our acquisition from related parties in March 2005 of two student housing properties that we managed prior to our purchase. In addition, during 2005, we ceased providing management services relating to five student housing properties owned by third parties and a student housing property owned by a related party upon the sale of the properties.

Income taxes from continuing operations amounted to \$66,000 in 2005 compared to \$33,000 in 2004. Income taxes consist primarily of taxes associated with the operations of our student housing taxable REIT subsidiary.

#### ***Military Housing***

*Revenue.* Expense reimbursements from continuing operations totaled \$57.4 million in 2005, as compared to \$31.8 million in 2004, primarily due to payroll and renovation expenses related to the seven military housing projects in operation as of December 31, 2005 as compared with the five military housing projects in operation as of December 31, 2004; closing costs and transition expenses for the Fort Bliss/White Sands Missile Range project, which commenced operations in the third quarter of 2005; and reimbursed expenses for the Fort Hamilton project, the Walter Reed Army Medical Center and Fort Detrick project, the Fort Eustis/Fort Story project and the Navy Northeast

Region project, which were in operation for all of 2005 but only a portion of 2004.

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In addition, reimbursements of costs incurred in the development of CDMPs totaled \$0.4 million in 2005 relating to the Fort Bliss/White Sands Missile Range project, and \$1.0 million in 2004 relating to the Fort Hamilton project, Walter Reed Army Medical Center/Fort Detrick project and the Fort Eustis/Fort Story project. The table below sets forth certain information regarding the revenue from expense reimbursements and reimbursed costs for CDMP development for each of our military housing projects for 2005 and 2004. Only the Fort Stewart and Hunter Army Airfield project and the Fort Carson project were in operation throughout all of 2004 and 2005.

Project	2005 (in millions)	2004
<b>Expense Reimbursements</b>		
Fort Stewart and Hunter Army Airfield Project	\$ 9.4	\$ 7.0
Fort Carson Project	6.9	11.8
Fort Hamilton Project(1)	0.5	1.1
Walter Reed Army Medical Center and Fort Detrick Project(2)	1.4	0.9
Fort Eustis/Fort Story Project(3)	4.7	4.3
Navy Northeast Region Project(3)	29.0	6.7
Fort Bliss/White Sands Missile Range Project(4)	5.5	
<b>Total expense reimbursements</b>	<b>\$ 57.4</b>	<b>\$ 31.8</b>
<b>Reimbursed costs</b>	<b>\$ 0.4</b>	<b>\$ 1.0</b>

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- (1) Commenced operations in the second quarter of 2004.
  - (2) Commenced operations in the third quarter of 2004.
  - (3) Commenced operations in the fourth quarter of 2004.
  - (4) Commenced operations in the third quarter of 2005.

Management fees from related parties totaled \$6.8 million in 2005 compared to \$2.9 million in 2004. The table below sets forth certain information regarding the revenue from management fees from related parties for each of our military housing projects for 2005 and 2004. The amount of management fees from related parties that we receive during a fiscal period is affected by the number of housing units that we manage under our military housing projects during that period, which number will fluctuate based on the number of housing units that we construct/renovate or demolish during that period. Management fees from related parties increased significantly during 2005 primarily due to commencement of operations relating to our Navy Northeast Region project in the fourth quarter of 2004 and a full year of operations for our other projects.

Project	2005 (in millions)	2004
Fort Stewart and Hunter Army Airfield Project	\$ 1.0	\$ 1.0
Fort Carson Project	1.2	1.1
Fort Hamilton Project(1)	0.2	0.1
Walter Reed Army Medical Center and Fort Detrick Project(2)	0.2	0.1
Fort Eustis/Fort Story Project(3)	0.5	(4)
Navy Northeast Region Project(3)	3.2	0.5
Fort Bliss/White Sands Missile Range Project(5)	0.5	
<b>Total</b>	<b>\$ 6.8</b>	<b>\$ 2.9</b>

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- (1) Commenced operations in the second quarter of 2004.
  - (2) Commenced operations in the third quarter of 2004.
  - (3) Commenced operations in the fourth quarter of 2004.
  - (4) Amount constituted less than \$0.1 million.

(5) Commenced operations in the third quarter of 2005.

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Other fee income from related parties, which includes development and construction fees and business development fees, totaled \$18.0 million in 2005 compared to \$8.5 million in 2004. The table below sets forth certain information regarding the revenue from other fee income from related parties for each of our military housing projects for 2005 and 2004. The amount of other fee income from related parties that we receive during a fiscal period is affected by the level of housing unit development and construction that we perform under our military housing projects during that period. Other fee income from related parties increased significantly during 2005 primarily due to commencement of operations relating to our Navy Northeast Region project in the fourth quarter of 2004 and a full year of operations for our other projects.

Project	2005 (in millions)	2004
<b>Development and Construction/Renovation Fees</b>		
Fort Stewart and Hunter Army Airfield Project	\$ 3.9	\$ 2.3
Fort Carson Project	0.3	0.8
Fort Hamilton Project(1)	0.9	0.5
Walter Reed Army Medical Center and Fort Detrick Project(2)	1.2	1.0
Fort Eustis/Fort Story Project(3)	1.1	(4)
Navy Northeast Region Project(3)	4.5	1.7
Fort Bliss/White Sands Missile Range Project(5)	2.1	
Total development and construction/renovation fees	\$ 14.0	\$ 6.3
<b>Business development fees</b>	\$ 4.0	\$ 2.2
<b>Total Other Fee Income Related Parties</b>	\$ 18.0	\$ 8.5

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- (1) Commenced operations in the second quarter of 2004.
  - (2) Commenced operations in the third quarter of 2004.
  - (3) Commenced operations in the fourth quarter of 2004.
  - (4) Amount constituted less than \$0.1 million.
  - (5) Commenced operations in the third quarter of 2005.

Equity in earnings of unconsolidated entities, which includes preferred returns from military housing project joint ventures, totaled \$3.1 million for 2005. Of the 2005 amount, \$1.0 million related to preferred returns from our Navy Northeast project, and \$2.1 million related to our investment in Fort Carson Family Housing LLC.

*Expenses.* Property operating expenses include costs related to operating the military housing segment of our business. These costs decreased to \$4.4 million in 2005 from \$6.5 million in 2004 primarily due to the presence in 2004 of costs associated with integrating the Fort Eustis/Fort Story project and the Navy Northeast Region project, both of which commenced operations in the fourth quarter of 2004; partially offset by costs in 2005 associated with integrating the Fort Bliss/White Sands Missile Range project, which commenced operations in the third quarter of 2005.

Reimbursed expenses increased to \$57.4 million in 2005 from \$31.8 million in 2004 primarily due to payroll and renovation expenses related to the seven military housing projects in operation as of December 31, 2005 as compared with the five military housing projects in operation as of December 31, 2004; closing costs and transition expenses for the Fort Bliss/White Sands Missile Range project, which commenced operations in the third quarter of 2005; and reimbursed expenses for the Fort Hamilton project, the Walter Reed Army Medical Center and Fort Detrick project, the Fort Eustis/Fort Story project and the Navy Northeast Region project, which were in operation for all of 2005 but only a portion of 2004.

### **Corporate**

Rental revenue, other fee income related party, other income, and expense reimbursements, which were recognized with respect to the portions of our corporate headquarters leased to entities affiliated with Gary M. Holloway, Sr., and payroll and related expenses reimbursed by entities affiliated with Mr. Holloway for the provision of common services, decreased to \$0.7 million in 2005 from \$1.1 million in 2004, primarily as a result of a reduced level of services provided to these entities as compared to 2004.

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Reimbursed expenses remained unchanged at \$0.3 million for the year ended December 31, 2005 from \$0.3 million for the year ended December 31, 2004.

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Administrative expenses, primarily relating to management of our corporate office, accounting, legal, human resources, information technology, corporate aircraft, and acquisitions department increased to \$12.3 million in 2005 from \$6.0 million in 2004, primarily due to increased staffing and additional costs incurred in connection with becoming a public company and growth in our operating segments.

Depreciation, relating primarily to our corporate assets, decreased to \$0.5 million in 2005 from \$0.9 million in 2004, primarily due to the transfer of the corporate aircraft in February 2005 back to Mr. Holloway.

Interest expense increased to \$1.5 million in 2005 from \$0.5 million in 2004, primarily due to increased outstanding borrowings on our line of credit.

Compensation expense was recorded in 2004 relating to profits interests awarded by Gary M. Holloway to certain employees of the GMH Predecessor Entities and other entities affiliated with Mr. Holloway in recognition of past services. These employees were eligible to participate in the net proceeds or value received by Mr. Holloway upon the sale or disposition of certain student housing properties and the military housing business in excess of Mr. Holloway's equity investments in such assets. These employees rendered all services and satisfied all conditions necessary to earn the right to benefit from these profits interests as of the date that such profits interests were awarded. In accordance with Financial Accounting Standards Statement No.5, *Accounting for Contingencies*, compensation expense relating to the award of these profits interests was required to be recognized by the GMH Predecessor Entities when the sale or disposition of the assets resulting in proceeds received by Mr. Holloway in an amount in excess of his equity investment in such assets became probable. This amount became probable during the third quarter of 2004 when, in connection with the contribution of the ownership interests in GMH Military Housing LLC, College Park Management Inc. and other assets by Mr. Holloway to our operating partnership in anticipation of the initial public offering of the Company, the remaining profits interests awards were amended to fix the value of such awards at \$33.2 million to be paid to these employees unconditionally. Accordingly, this amount was recognized in the third quarter of 2004 and Mr. Holloway's obligations regarding the profits interests were satisfied upon the transfer of \$33.2 million of units of limited partnership in our operating partnership to these employees on November 2, 2004, the closing date of our initial public offering.

#### **Liquidity and Capital Resources**

Short-term liquidity requirements consist primarily of funds necessary to pay operating expenses and other costs. These expenses and costs include (i) recurring maintenance and capital expenditures to maintain and lease our properties, (ii) interest expense and scheduled principal payments on outstanding indebtedness, (iii) real estate taxes and insurance, (iv) corporate salaries, employee benefits and other corporate overhead and administrative expenses, (v) equity contributions to our investments in military housing projects, and (vi) distributions to shareholders and unitholders of our operating partnership. During the three months ended March 31, 2007 and through May 7, 2007, our short-term liquidity needs were funded primarily through existing working capital and cash provided by operations, together with amounts available to us under a \$250 million revolving line of credit with Wachovia Bank. In December 2006, our management announced a strategic plan, which began in early 2007, that involved raising a plan to raise capital proceeds to pay down this line of credit prior to its initial maturity date of June 1, 2007 (originally April 1, 2007 prior to amendment). This capital raising strategy included the identification of various currently-owned student housing properties that would be sold, refinanced and/or contributed into a joint venture. As described in the section above titled *2007 Business Strategy*, we completed the refinancing and joint venture transactions outlined under management's plan in February and April 2007, respectively, and, as of the date of this prospectus, had completed the sale of three properties and had an additional three properties held for sale with two separate purchasers. For additional information regarding this business strategy, see the section above titled *2007 Business Strategy*.

Also as part of our 2007 business strategy, management indicated that it was in discussions with a number of financial institutions to enter into a new line of credit that would replace the Wachovia line of credit when terminated. On May 7, 2007, we obtained a note facility with Merrill Lynch, Pierce, Fenner & Smith Incorporated that allows our operating partnership to borrow, on a revolving basis through April 30, 2010, up to an aggregate principal amount of \$100.0 million, and subject to certain conditions, up to an additional \$25.0 million for an aggregate of \$125.0 million. On May 7, 2007, our operating partnership issued a note to Merrill Lynch representing approximately \$90.7 million in borrowings under this note facility, of which \$1.0 million was used to pay a commitment fee to Merrill Lynch and the remaining proceeds were used to repay the remaining principal and interest due under, and to simultaneously



terminate, our line of credit with Wachovia Bank. The initial note was issued with an interest rate of 7.07% and has a term through April 30, 2010. On June 1, 2007, we redeemed an outstanding principal amount of notes under this facility equal to \$30.5 million, resulting in a remaining balance of \$60.2 million in principal of notes outstanding under the facility. Additional notes may be issued at any time upon notice by our operating partnership, and we will have the ability to repay amounts under outstanding notes and to re-borrow amounts through the issuance of new notes, provided that the maximum amount of notes outstanding at any time during the term of the note facility does not exceed an aggregate principal amount of \$100.0 million, or \$125.0 million to the extent the note facility may be increased. The notes will be issued to Merrill Lynch as the initial purchaser, and may thereafter be transferred to qualified institutional buyers in accordance with Rule 144A of the Securities Act of 1933, as amended. The notes will be administered under the terms of a Trust Indenture with U.S. Bank Trust National Association, serving as trustee of the notes. The notes are issuable at an annual interest of LIBOR plus 1.75%, will require monthly payments of interest only, and are secured solely by the fees and equity preferred returns we receive in connection with our military housing projects currently in operation, as well as those to be received, if any, under the Navy Southeast project and West Point project for which we are currently under exclusive negotiations.

The Trust Indenture pursuant to which the notes referenced above are and may be issued going forward contain a number of affirmative and negative covenants and also contains financial covenants which, among other things, require that we maintain (i) a fixed charge coverage ratio, as defined in the Trust Indenture, of at least 1.15 to 1.00, calculated on a quarterly basis, (ii) a consolidated tangible net worth, as defined by in the Trust Indenture, of at least \$375 million, (iii) quarterly minimum Adjusted Management EBITDA, as defined in the Trust Indenture, of \$3.5 million, and (iv) our federal tax status as a REIT.

We elected to be treated as a REIT for federal income tax purposes commencing with our taxable year ended December 31, 2004. As a REIT, we are required to distribute at least 90% of our REIT taxable income to our shareholders on an annual basis. Therefore, except as discussed below, as a general matter, a substantial portion of cash generated by our operations will be used to fund distributions to shareholders and holders of limited partnership interests in our operating partnership, and will not be available to satisfy our liquidity needs. Future dividends will be declared at the discretion of our Board of Trustees and will depend on our actual cash flow, our financial condition, capital requirements, the annual distribution requirements under the REIT provisions of the Code and other such factors as our Board of Trustees deems relevant. For the first quarter of 2007, we declared a quarterly dividend distribution of \$0.165 per common share, payable to shareholders of record on March 29, 2007. We distributed this dividend on April 13, 2007, and at the same time, our operating partnership paid a distribution of \$0.165 per unit to holders of limited partnership interest in our operating partnership. We cannot assure you that we will continue to have cash available for distributions at historical levels or at all. Any distributions we pay in the future will depend upon our actual results of operations, economic conditions and other factors that could differ materially from our current expectations. To the extent that our cash flow from operations is insufficient to fund our anticipated dividend distributions, we may seek to borrow funds under our credit facility or through other third party debt financing or we may lower our dividend distribution. Our available cash for distributions will be affected by a number of factors, including: our ability to complete our strategic plans for the sale, refinancing and joint venture of multiple student housing properties as outlined above; the revenue we receive from our student housing properties; revenues from management fees in connection with management services that we will provide for student housing properties owned by others; revenues from our military housing projects; our operating expenses; interest expense; costs related to our pending class action lawsuits; and any unanticipated expenditures. For more information regarding risk factors that could materially adversely affect our actual results of operations, please see the section of this prospectus titled *Risk Factors*.

With regard to our military housing privatization projects, we are typically required to fund our portion of the equity commitment to the project's joint venture after all other sources of funding for the project have been expended. With respect to our Navy Northeast Region project and our AETC Group I project, however, we were required to fund the equity commitment at commencement of the project. We made a \$9.5 million equity contribution in November 2004 relating to our Navy Northeast Region project, an \$8.0 million equity contribution in February 2007 relating to our AETC Group I project, and, as of March 31, 2007, had contractually committed to contribute the following additional amounts: an aggregate of \$2.0 million in 2007 to our Fort Hamilton project; \$5.9 million in 2007 to our Walter Reed Army Medical Center/Fort Detrick project, all of which had been funded through March 2007; \$3.6 million in 2010 for our Fort Eustis/Fort Story project; \$3.0 million in 2010 or 2011 for our Carlisle/Picatunny project; \$8.0 million in 2011 for our Fort Stewart and Hunter Army Airfield project; an aggregate of \$4.5 million to our Fort Gordon project in several phases that commence in 2011 and end in 2012, and \$6.3 million in 2012 for our Fort Bliss/White Sands

project. These equity contributions help to fund the development, construction and renovation of housing units at these bases during their respective initial development periods.

Typically, we are reimbursed for certain costs we incur after we are awarded the right to exclusively negotiate agreements for a military housing project until we enter into agreements for the project and for transition costs we incur shortly before initiation of our management of a military housing project. However, we are required to fund these costs prior to the time we receive the reimbursements. Typically, our military projects require approximately \$1.0 million to \$7.0 million in costs associated with transition and exclusive negotiations, depending on the size of the project. The expenditures typically begin 12 months prior to executing an agreement for the military housing project. Accordingly, the timing between our payments and reimbursements for projects may add to our short-term liquidity needs.

If cash flows from any of our military housing privatization projects are insufficient to meet the coverage ratios or benchmarks entitling us to receive fee payments, any unpaid fees will accumulate and be subsequently paid from operations or upon dissolution of the projects to the extent that funds are available and the applicable thresholds are met. If these thresholds are not met, we will not have access to or receive certain of the fees we have earned. The unavailability of these funds would materially impact our ability to meet our short-term and long-term liquidity needs. We will be required to make equity contributions at the beginning of the initial development period for typical Navy transactions and at the end of the initial development period for typical Army transactions. We also were required to make our equity contribution at the beginning of the initial development period for our AETC Group I project with the Air Force during the first quarter of 2007. Based on our current expectations regarding the terms of the debt funding for our military housing projects, we expect that the projects will generate sufficient cash flows to fund the reinvestment account and pay anticipated equity returns.

With regard to our currently owned student housing properties, we do not have any material short-term capital commitments, other than with respect to our short-term capital needs relating to the general expenses and costs associated with operating and managing these properties. We will require, however, funds in connection with our anticipated acquisitions of student housing properties. During at least the remainder of 2007, we currently expect to place less emphasis on the acquisition of additional student housing properties, and to continue to focus on the operational performance of our existing student housing properties and development projects. If we are able to complete our strategic plan as outlined above under 2007 Business Strategy, we may determine that it is appropriate to place greater emphasis on the acquisition of student housing properties that are located in our targeted markets and that meet management's underwriting criteria for creating long-term growth potential. To the extent that we seek to acquire student housing properties during at least the first six to nine months of 2007, we will consider funding the acquisition through joint venture structures similar to the joint venture terms that we currently have with respect to a total of seven properties as of the date of this report. The timing of any acquisitions or development projects will be dependent upon various factors, including the ability to complete satisfactory due diligence, to find suitable joint venture partners and agree upon mutually acceptable joint venture terms, to obtain appropriate debt financing on the properties, and the availability of capital. We would also consider funding our equity portion of any joint ventures by using funds from available cash from operations or borrowings. We may also determine that it is appropriate to purchase student housing properties outright, as opposed to with a joint venture partner, depending upon factors which may include, but are not limited to, the applicable purchase price, available capital, and projected returns with respect to the property.

For the remainder of 2007, we also expect to incur significant legal fees in connection with our pending class action litigation. These fees could impact the level of cash from operations that we would otherwise expect to be available for the acquisition of student housing properties, and therefore could affect the number of acquisitions that we seek to complete during the next six to 12 months.

Long-term liquidity requirements with respect to our student housing and military housing segments consist primarily of amounts necessary to fund scheduled debt maturities, renovations and other non-recurring capital expenditures that need to be made periodically at our properties, and the costs associated with acquisitions of student housing properties and awards or acquisitions of military housing privatization projects that we pursue. Historically, we have satisfied our long-term liquidity requirements through various sources of capital, including existing working capital, cash provided by operations, and long-term mortgage indebtedness. We now expect our long-term liquidity requirements to be satisfied primarily through cash generated by operations that is not used to fund distributions and the additional external financing sources discussed above.

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*Contractual Obligations*

The following table summarizes our contractual obligations, as well as obligations under certain acquisition contracts we consider probable of completion as of December 31, 2006 for this year, the four succeeding years and thereafter, in the aggregate.

Contractual Obligations(1)	2007 (in thousands)	2008	2009	2010	2011	Thereafter	Total
Notes payable(2)	\$ 46,369	\$ 32,684	\$ 45,042	\$ 100,008	\$ 95,565	\$ 698,374	\$ 1,018,042
Line of credit	199,435						199,435
Interest(3)	65,902	53,912	50,477	46,580	42,181	133,787	392,839
Operating leases(4)	393	393	395	405	405	18,692	20,683
Acquisitions of properties(5)	19,009						19,009
Equity contribution(6)	7,830			6,600	12,510	6,300	33,240
Employment/consulting agreements(7)	1,464	876	438				2,778
	\$ 340,402	\$ 87,865	\$ 96,352	\$ 153,593	\$ 150,661	\$ 857,153	\$ 1,686,026

(1) Excludes individual contractual obligations with a value of less than \$25,000, contractual obligations relating to our operations that may be terminated with notice of one month or less and contractual obligations for which we expect to be reimbursed.

(2) Represents scheduled payments of principal.

(3) Represents estimated future interest payments on debt outstanding at December 31, 2006, including borrowings under our line of credit. These estimated amounts assume that all debt remains outstanding until the debt maturity date as provided in the applicable loan agreement, and also assumes the same interest rates that were in effect as of December 31, 2006. We also have assumed for purposes of this table, that we repay our line of credit on its initial maturity date of June 1, 2007.

(4) Represents ground leases with respect to two of our student housing properties. One ground lease ends on September 1, 2051 with the ability to renew for two additional five-year terms. The other ground lease ends on October 31, 2054 with the ability to renew for one additional 49-year term. The rental payment is subject to increases every five years, based on increases in the consumer price index (CPI) of at least 3%. The rental increases are based on an assumed CPI increase of 3% every five years. Actual rental payments may vary from the amounts presented based on the actual CPI increases that are used to calculate the rent increases.

(5) Represents the contractual obligations to purchase one student housing property and fourteen undeveloped parcels of land that we had under agreement of sale as of December 31, 2006.

(6) Represents contractual commitments to fund equity contributions to military housing privatization projects. Excludes \$8.0 million in equity funded in connection with our AETC Group I project, which was paid upon closing of the project award on February 6, 2007.

(7) We are subject to employment agreements with each our executive officers, including Gary M. Holloway, Sr., Bruce F. Robinson, John DeRiggi, J. Patrick O Grady and Joseph M. Macchione. Each of these agreement has an initial term of three years. The initial term of the agreements for Messrs. Holloway and Robinson ends on November 2, 2007. In addition, we are subject to a consulting agreement with Joseph M. Coyle, the former president of our student housing business, who resigned from the Company. The consulting agreement, which became effective on January 1, 2006, had an initial term of 17 months and will expire on May 31, 2007.

**Cash Distribution Policy**

Commencing with our taxable year ended December 31, 2004, we filed a tax return electing to be treated as a REIT under the Code, and we expect to continue to qualify as a REIT. As a REIT, we generally will not be subject to federal income tax to the extent that we distribute our REIT taxable income to our shareholders, but the taxable income generated by our taxable REIT subsidiaries will be subject to regular corporate income tax. We intend to make at least the minimum distributions required to maintain our REIT qualifications under the Code. Holders of units of our limited partnership will also be entitled to distributions of cash equivalent to dividends per share paid to our common shareholders.

**Inflation**

As a majority of our student housing leases are 12 months or less, rates on in-place leases generally approximate market rental rates. We believe that inflationary increases in expenses may be offset to a certain extent by rent increases upon renewal. A majority of our military housing management fees, construction/renovation fees and business development fees

are based on a percentage of revenue or expenses generated by us or the military housing privatization projects. Inflationary increases in expenses may not be offset by increases in revenue.

**Quantitative and Qualitative Disclosures About Market Risk.**

Given current market conditions, our strategy favors fixed-rate, secured debt over variable-rate debt to minimize our exposure to increases in interest rates. As of March 31, 2007, 82% of the outstanding principal amount of our notes payable secured by properties we owned had fixed interest rates with a weighted-average rate of 5.29%. The remaining 18% of outstanding principal amount of our notes payable and our Wachovia line of credit at March 31, 2007, had variable interest rates primarily equal to LIBOR plus 2.0%.

As of March 31, 2007, we had \$137.8 million in funds drawn from our Wachovia line of credit, bearing a variable weighted average interest rate of 7.32%.

As of March 31, 2007, based on our variable rate debt balances described above, if interest rates were to increase by 1.0%, our interest expense would have increased by approximately \$2.0 million on an annual basis.

## OUR BUSINESS AND PROPERTIES

*GMH Communities Trust commenced operations on November 2, 2004, upon completion of its initial public offering and the simultaneous acquisition of the sole general partnership interest in GMH Communities, LP, referred to throughout this report as our operating partnership. The historical operations prior to completion of our initial public offering that are described in this prospectus refer to the operations of College Park Management, Inc., GMH Military Housing, LLC, 353 Associates, L.P., and Corporate Flight Services, LLC, which are collectively referred to, together with our operating partnership, as the GMH Predecessor Entities or our predecessor entities.*

*In connection with our formation transactions completed prior to and simultaneously with the completion of our initial public offering, the ownership interests in the GMH Predecessor Entities were contributed to our operating partnership as described in Note 1 of the financial statements included in this prospectus. We have described our operations in this prospectus as if the historical operations of our predecessor entities were conducted by us for the full fiscal year ended December 31, 2004.*

### Our Company

We are a self-advised, self-managed, specialty housing company that focuses on providing housing to college and university students residing off-campus and to members of the U.S. military and their families. Through our operating partnership, we own and operate our student housing properties and own equity interests in joint ventures that own our military housing privatization projects. Generally, we provide through our taxable REIT subsidiaries the development, construction, renovation and management services for our military housing privatization projects and property management services for student housing properties owned by others. In addition, through our operating partnership, we provide consulting services with respect to the management of certain student housing properties owned by others, including colleges, universities and other private owners. We are one of the leading providers of housing, lifestyle and community solutions for students and members of the U.S. military and their families.

GMH Communities Trust was formed in May 2004 to continue and expand upon the student and military housing businesses of our predecessor entities and other affiliated entities, collectively referred to as GMH Associates. GMH Associates was founded in 1985 principally to acquire, develop and manage commercial and residential real estate, focusing on student housing. Beginning in 1999, GMH Associates also competed for the award of contracts to develop, construct, renovate and manage housing units for members of the U.S. military and their families, referred to as military housing privatization projects. We seek to capitalize on the highly fragmented student housing market at colleges and universities and the related need for quality and affordable off-campus, privately owned student housing. Focusing on this opportunity, we have, and prior to our formation, GMH Associates had, acquired or entered into joint ventures that acquired student housing properties strategically located near college or university campuses. In addition, we have continued to expand upon the military housing business developed by GMH Associates and to seek the award of additional military housing privatization projects granted by the Department of Defense, or DoD, under the 1996 National Defense Authorization Act.

We elected to be treated as a real estate investment trust, or REIT, under the Internal Revenue Code of 1986, as amended, or the Code, commencing with our taxable year ended December 31, 2004, and intend to continue to qualify as a REIT. We perform certain management and other services relating to student and military housing, which if performed directly by a REIT could adversely affect its qualification as a REIT, through our taxable REIT subsidiaries, GMH Military Housing, LLC and College Park Management TRS, Inc. A taxable REIT subsidiary is an entity, taxed as a corporation, in which a REIT directly or indirectly holds shares and which makes a joint election with the REIT to be treated as a taxable REIT subsidiary of the REIT. Taxable REIT subsidiaries are generally subject to federal income taxation in the same manner as regular corporations and not as REITs. The extent to which a REIT can conduct its operations through a taxable REIT subsidiary is limited by provisions of the Code, which require that (i) dividends from a taxable REIT subsidiary, together with other nonqualifying gross income of the REIT, constitute not more than 25% of the REIT's gross income in any taxable year and (ii) securities issued by taxable REIT subsidiaries represent not more than 20% of the value of the REIT's total assets as of the close of any quarter of a taxable year of the REIT.

As of March 31, 2007, we owned or had ownership interests in 77 student housing properties, containing a total of 14,432 units and 46,696 beds. We also owned seven undeveloped or partially developed parcels of land held for development as student housing properties, and we managed a total of 18 student housing properties owned by others, containing a total of 3,053 units and 9,900 beds, as well as 51 units and 279 beds currently under construction.

With respect to our military housing segment, as of March 31, 2007, our operating partnership had an ownership interest in, and through various wholly-owned subsidiaries operated, 10 military housing privatization projects, comprising an aggregate of approximately 20,364 end-state housing units on 25 military bases. End-state housing units are the housing units, including units subject to new construction and existing units, whether or not subject to renovation, that are approved for completion and management by the end of the initial development period, or IDP, for the project.

With respect to projects under exclusive negotiations and which are not yet in operation, we have been chosen by the Department of the Army to design, construct and manage two single soldier housing projects, located at Fort Bliss and Fort Stewart. These two projects are among the first

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of unaccompanied housing privatization awards made by the Army. Also, during the first quarter of 2007, we announced that we were selected by the Department of the Navy to enter into exclusive negotiations for the design, construction, management and maintenance of the military family housing at 11 Southeast Region Navy bases in five states. The 50-year term of the Navy Southeast project is expected to commence with a six-year IDP that is valued in excess of \$700 million and covering approximately 5,501 end-state housing units. During the first quarter of 2007, we also announced that we were selected by the Department of the Army to enter into exclusive negotiations for the family housing privatization project at the U.S. Military Academy at West Point, New York, which is expected to have a five-year IDP with project costs valued in excess of \$160 million and cover 628 end-state housing units. Most recently, in May 2007, we announced that we were selected by the Department of the Army to enter into exclusive negotiations for the family housing privatization project at Fort Jackson in Columbia, South Carolina. The Fort Jackson project is expected to have a six-year IDP with project costs valued in excess of \$180 million and cover 990 end-state housing units.

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Our Internet address is [www.gmhcommunities.com](http://www.gmhcommunities.com). We make available free of charge on or through our website our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports, as soon as reasonably practicable after we electronically file such material with, or furnish it, to the SEC. Our Internet website and the information contained therein or connected thereto do not constitute a part of this prospectus.

**2007 Business Strategy**



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In December 2006, we announced that our management expected to implement a business strategy beginning in 2007 that would involve the sale, refinancing and/or entrance into joint ventures covering a number of our currently-owned student housing properties. Our management developed this plan primarily in an effort to raise capital proceeds that could be used to repay outstanding indebtedness under our line of credit with Wachovia Bank. In connection with this business strategy, we completed the refinancing of four of our student housing properties in February 2007, for a total of \$90.0 million in new 10-year mortgage debt at a fixed interest rate of 5.6%. We used the net proceeds from this refinancing to repay \$73.6 million in outstanding borrowings under the Wachovia line of credit, which resulted in the replacement of the indebtedness under the Wachovia line of credit that was carrying a variable LIBOR-based interest rate of 7.32% as of the date of the refinancing. Immediately following this transaction, we had approximately \$137.8 million in remaining borrowings outstanding under the Wachovia line of credit.

In addition, on April 13, 2007, we entered into a joint venture transaction with Fidelity Real Estate Group covering a total of six student housing properties. As of April 13, 2007, we had completed the transfer of our 100% interest in five of the six properties into the joint venture entity, which is currently owned 90% by Fidelity and 10% by us. The transfer of our interest in the sixth property to be included in the joint venture is expected to be completed during the second quarter of 2007, upon receipt of lender approval of the joint venture's assumption of the existing mortgage indebtedness on that property. In connection with the closing of the five properties that are part of the joint venture, Fidelity contributed approximately \$19.8 million into the joint venture, and the joint venture simultaneously placed new mortgage indebtedness on the properties in an aggregate amount of \$88.0 million. The new mortgage debt has a five-year term and requires interest-only payments at a fixed rate of approximately 5.52%. We received net proceeds from the joint venture transaction totaling approximately \$56.1 million, and used the proceeds to repay an equal amount of existing indebtedness outstanding under the Wachovia line of credit.

Also, on May 7, 2007, we entered into a revolving note facility, under the terms of a Note Purchase Agreement, with Merrill Lynch, Pierce, Fenner & Smith Incorporated. Under this note facility, our operating partnership may issue up to an aggregate principal amount of \$100.0 million in notes outstanding at any time through April 30, 2010, and, subject to certain conditions, may be increased to up to an additional \$25 million in notes outstanding. On May 7, 2007, our operating partnership issued a note to Merrill Lynch for approximately \$90.7 million, which was used to pay a \$1.0 million commitment fee to Merrill Lynch, closing costs and to repay principal and interest due under, and to terminate, the Wachovia line of credit. The initial note was issued with an interest rate of 7.07% and has a term through April 30, 2010. On June 1, 2007, we redeemed an outstanding principal amount of notes under this facility equal to \$30.5 million, resulting in a remaining balance of \$60.2 million in principal of notes outstanding under the facility. Additional notes may be issued at any time upon notice by our operating partnership, and we will have the ability to repay amounts under outstanding notes and redraw such amounts through the issuance of new notes, provided that the maximum amount of notes outstanding at any time during the term of the Note Purchase Agreement may not exceed an aggregate principal amount of \$100.0 million, or \$125 million to the extent permitted to be increased. Under the terms of the note purchaser agreement, the notes will be issued to Merrill Lynch and may thereafter be transferred to qualified institutional buyers in accordance with Rule 144A of the Securities Act of 1933, as amended. The notes will be administered under the terms of a Trust Indenture with U.S. Bank Trust National Association, serving as trustee of the notes. The notes are issuable at an annual interest of LIBOR plus 1.75%, will require monthly payments of interest only, and are secured solely by the fees and equity preferred returns we receive in connection with our military housing projects currently in operation, as well as those to be received under the Navy Southeast project and West Point project for which we are currently under exclusive negotiations. For additional information regarding the terms of this transaction, see the section of prospectus titled *Our Business and Properties Note Facilities*. report.

On May 24, 2007, we completed the sale of three student housing properties to SCI Real Estate Investments, LLC, and received an aggregate of approximately \$27.8 million in net proceeds after the repayment of existing mortgage debt on the properties totaling approximately \$37.0 million. We used approximately \$23.2 million of the proceeds from these completed sales to repay outstanding indebtedness under our note facility through Merrill Lynch, and the remaining \$4.6 million in proceeds are being held in escrow for up to 180 days pending the Company's completion of a 1031 exchange transaction. Pursuant to our agreement with SCI, we have agreed to sell an additional two student housing properties. The timing of completion for the remaining two sale properties under the agreement, as well as one additional property sale to a different buyer, is contingent upon the timing of lender approval of applicable loan assumptions, which is currently expected to occur by the end of the second quarter of 2007 or early in the third quarter of 2007. We expect to use proceeds from the pending sale transactions to redeem outstanding notes under the Trust Indenture with U.S. Bank Trust as discussed above and for general working capital purposes.

### **Student Housing Business**

#### ***Overview***

Through its development, redevelopment and strategic acquisitions of student housing properties, directly and indirectly through joint ventures, our management team has led GMH Communities Trust to become, as measured by our internal competitive analysis estimates, one of the largest private operators of off-campus housing for college and university students in the U.S.

We seek to acquire and manage high quality student housing properties strategically located near college or university campuses and other points of interest, such as restaurants or other nightlife destinations that cater to students. The properties we seek to acquire and manage include town homes and high-rise, mid-rise and garden-style apartment complexes. The amenities we offer residents vary by property, but include many of those commonly sought by students, such as private bedrooms and bathrooms, high quality student furnishings, cable television, wired and

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wireless high speed Internet access, a washer and dryer in each unit, fitness centers, swimming pools, computer centers, study rooms and game rooms. Additionally, we strive to create attractive environments for our residents by providing, among other things, student housing employees living on-site as well as 24-hour maintenance and emergency services. Although we target student residents, a small percentage of our residents are non-students.

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We believe there are substantial opportunities to acquire and manage off-campus student housing. Currently, the student housing market is highly fragmented and primarily served by local property owners. In addition, a significant number of existing student housing properties are obsolete, creating demand by students for high quality housing and premium services. We also believe that, because of the structural and functional obsolescence of many existing on-campus and off-campus student housing properties, future opportunities may exist to establish joint ventures with colleges and universities to manage, lease, renovate or develop on- and off-campus student housing, although we have not yet entered into any such arrangements. Opportunities may exist for us to participate in these arrangements through the ownership or leasing of properties or otherwise.

We believe that the student housing industry has been under managed to date, and that the key factors in the successful execution of our business plan include, among other things, the provision of high quality student housing with a high degree of customer interaction, the implementation of well-managed marketing, leasing, maintenance, retention and collection programs for our properties and the ability to incentivize our management by empowering them to achieve specific objectives.

We will only consider opportunities for those types of arrangements in the student housing business that are consistent with our ability to maintain our status as a REIT for federal income tax purposes. In order to qualify as a REIT, a specified percentage of our gross income must be derived from certain sources, including rents from real property (and generally excluding income from the operation of non-rental related assets).

### ***Strategy***

From a growth perspective, our strategy in the student housing business is to acquire, own and effectively manage a diverse portfolio of attractive and high quality off-campus student housing properties located near college and university campuses throughout the U.S. We focus on owning and operating primarily garden-style apartment complexes, as well as town homes, and high-rise and mid-rise apartment complexes. Our operational strategy is to manage our own student housing properties, as well as those we manage for colleges, universities and private owners, with a focus on catering to the college and university student, whose needs and lifestyle differ greatly from the needs and lifestyle of a typical apartment resident. We implement these strategies as follows:

*Target select properties/markets.* We seek to acquire and manage high quality student housing properties strategically located near college or university campuses and other points of interest, such as restaurants or other nightlife destinations that cater to students. We specifically target those acquisition sites that are located near colleges or universities with a student enrollment of at least 5,000, where the college or university is a primary driver of the local economy and where there is a shortage of existing modern student housing. We seek to identify properties in student housing markets with high barriers to entry and provide strong growth opportunities. We typically target sites within approximately two miles of the college or university campus. Our management team has found that most students prefer to live within a narrowly-defined geographic radius around a particular college or university campus because it provides students with the feeling of being a part of the campus community and also shortens students' commutes to and from classes. We also believe that we have identified a trend of students, particularly upperclassmen, wanting to live near entertainment venues near campus, such as restaurants or nightlife destinations. In order to capitalize on this trend, we intend not only to seek to acquire and manage premium student housing properties strategically located near college or university campuses, but also those properties close to other points of interest close to campus.

We believe that many of the local satellite campuses of large, state-funded colleges and universities have significant growth potential as the main campuses of these institutions begin to cap the number of students accepted. These caps on student enrollment at large, state-funded institutions also have had a positive effect on campus enrollment at competing colleges and universities located near these institutions.

Given our management team's experience in and knowledge of the student housing market, we believe that we have developed a solid foundation upon which to identify, evaluate and acquire high quality properties in the future. We believe that our size and financial strength gives us a competitive advantage over smaller, less established competitors in our target markets.

*Deliver full range of high quality product.* We seek to acquire and manage modern, state-of-the-art town homes and high-rise, mid-rise and garden-style apartments that are tailored to the student lifestyle. The typical design layout of a housing unit consists of one to four bedrooms, with a complementary number of bathrooms, centered around a

common area consisting of a living room, a dining area and a kitchen. In addition to functionality and appearance, we have found that students want to be offered a variety of amenities, similar to those found at typical luxury apartment communities. Amenities such as private bedrooms and high quality furnishings, cable television, wired and wireless high-speed Internet access, a washer and dryer in each unit, fitness centers, swimming pools, computer centers, study rooms and game rooms are found in some combination at all of our properties. We also employ student housing personnel that live on-site and provide our residents with 24-hour resident services, including maintenance and emergency services.

Our message to prospective student residents is that our properties provide a home-like environment with state-of-the-art technological capabilities and amenities and services designed to maximize their college or university experience. In our marketing efforts, we convey the message that living at one of our properties, unlike a typical apartment property, is like becoming a part of a small community within the larger college or university community. To this end, we offer regular events at our properties, such as athletic competitions, including volleyball and basketball tournaments, battle of the bands nights and non-alcoholic social events. We also offer prospective residents a roommate matching program, where students wishing to find roommates provide us with their background information, including their likes and dislikes, so that our property staff may attempt to match these individuals with compatible roommates.

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Each of our properties is managed, leased and maintained by an experienced staff of on-site employees. These employees are available to our student residents around the clock to provide routine maintenance service or to assist in emergencies. We also employ regional vice presidents who are responsible for coordinating the operations of our properties within each of their respective regions. Our management team works closely with the college and university housing and development staffs near our properties to ensure that the needs of students, parents and the institutions are being met throughout the year. For example, our management team coordinates with colleges and universities to provide students with access, where available, to the college or university computer network from each property's computer room or from student apartment units, and to become an approved provider of student housing for the local college or university.

We have developed specific management systems that are designed to optimize student housing operations and to maintain the value of our properties. These systems include implementing standard lease terms that generally require parental guarantees, making frequent and regular apartment inspections conducted during the course of the lease term, and maintaining and distributing a price list to our residents for any property damages incurred during the lease term and thereby incentivizing students to maintain their units. Two exceptions for which we generally do not seek parental guarantees include leases with international students, due to the high burden of obtaining or collecting on guarantees from parents of students who are not located in the U.S., and leases with residents who provide evidence of satisfactory personal income.

*Superior execution of operations.* We utilize dynamic, professional marketing services primarily to create web- and Internet-based applications to market and make information about us and our properties easily accessible to students, and initiate word-of-mouth campaigns to attract student residents. Recognizing the importance of the Internet, we have an individualized website dedicated for each of our student housing properties containing information about each property, amenities and services available at each property and pricing and leasing information. To a lesser degree, we also advertise through more traditional media, such as radio and print, particularly focusing on media such as student-run newspapers that target the student market.

The support of colleges and universities is beneficial to the continued success of our off-campus properties and, to this end, we actively seek to have these institutions recommend our properties to their students. Specifically, we attempt to enter into informal arrangements with colleges and universities to have them include information about certain off-campus properties that we manage on their home pages and to have them provide direct hyperlinks to these properties' websites, in addition to distributing brochures relating to these properties. We currently have arrangements with several educational institutions that provide their students with informational materials directing them to our properties. In cases where colleges and universities do not offer active recommendations for our off-campus housing, most nonetheless provide lists of suitable off-campus properties to their students. We continually work to ensure that our properties are on these lists in each of the markets that we serve.

Many of our properties are all-inclusive, meaning that we attempt to simplify the bill-paying process by including all costs associated with living at our properties, including water, electricity, gas, cable services and Internet services, in one monthly rental check to be paid to us by students or their parents. We limit our exposure to excessive utility bills from residents by setting a reasonable limit on how much we will pay per resident per month for a particular utility, such as water or electricity. If a resident's monthly bill for a utility exceeds the set limit, the excess cost may be charged to the resident on a subsequent bill.

In addition to our streamlined bill-payment system, we believe that our method of leasing is attractive to student residents and their parents. Under a traditional apartment lease, housing units are leased by the unit, and, therefore, all residents living in a particular unit are responsible for any liabilities of their roommates. We circumvent this situation by typically leasing our housing units by the bed, not the unit. As a result, students in our properties are contractually responsible for making only payments associated with their individual or pro-rata use of the unit.

We seek to maximize income by operating at a high level of efficiency through intensive management and prudent capital expenditures. In addition, property acquisitions in our target markets should permit us to increase student awareness of our properties through our cross-marketing programs, gain economies of scale by enabling us to consolidate management and leasing services and reduce costs of capital goods, supplies, furniture and other goods and services bought in bulk.

#### ***Student Leases***

Our property leases typically contain the following terms:

- a 12-month lease term (rent payable in equal monthly installments);



- rent payments typically include charges for all amenities provided at the property, such as basic cable, Internet service, a fitness center, a swimming pool and usually parking, or some combination of these, and in many instances unit interior charges for utilities such as water, gas, sewer and electric, subject to a monthly utility cap per unit;
- a guarantee by parents or legal guardians, relating to, among other things, the amounts payable under the lease, unless a resident can provide evidence of satisfactory personal income, or international residence status;
- require that residents pay a security deposit and/or a non-refundable move-in fee. The deposit is applied against any damages to the unit caused by the resident (including furnishings and household items in the unit). Residents and their lease guarantors also are required to assume personal responsibility for any damages caused to a unit or common areas of a property;
- restrictions on the subletting of units without our prior written consent;
- lease default provisions in the event of failure to pay rent when due, breach of any covenant contained in the lease or abandonment of the unit; and
- extensive rules and regulations governing the property and the behavior of residents in order to ensure effective controls.

#### ***Lease Administration and Marketing Systems***

We believe we are an industry leader in identifying and implementing solutions to improve the on-site decision-making processes of local management at each of the college and university communities where we either own or manage properties. We continue to focus on student housing information technology innovations, including customizing web-based applications designed to reduce operating costs, reacting quickly to frequent leasing and market changes and improving real-time operating information and services to student residents.

We have implemented state-of-the-art, real time systems that provide for on-line resident applications, on-line work orders and facilities management and occupancy reporting. We also have an on-line payment system which is currently being used to facilitate all credit card payments at most of our student housing properties. These exclusive systems have dramatically improved the efficiency of our operations and have improved services to an increasingly tech-savvy student market.

Additionally, we have created a web-based infrastructure designed to standardize systems and procedures to improve data tracking at all levels within our student housing business. These systems provide us with real-time access to customized data management tools that track leasing, occupancy, expenditures and purchases through national accounts, and with other e-business solutions designed to improve the speed and accuracy of our property management services.

#### ***Market Opportunity***

##### ***The Student Housing Market***

Demographic patterns and trends in education over the past several years suggest that there are an increasing number of college-aged individuals and an increasing number of students enrolling in colleges and universities in the U.S. According to a 2005 report by the U.S. Department of Education's National Center for Educational and Statistics or NCES, fall enrollment at four-year institutions of higher education in the U.S. is expected to increase from the 17.3 million students that were enrolled in 2004 to 19.5 million in 2014.

The major catalyst for projected enrollment increases, and subsequent student housing demand in the near future, will be the growth in the college-aged population represented by the Echo Boom generation, which is made up of the sons and daughters of the Baby Boomer generation, and is equal in size to the Baby Boomer generation. While the Baby Boomers are nearing retirement, much of the Echo Boom generation, which was born between 1977 and 1997, is entering, or has yet to enter, adulthood. According to the U.S. Census Bureau, in 2003, 4.0 million Americans turned 18; by 2010, that number will peak at 4.4 million and remain above 4.0 million annually for some time thereafter.

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The impact of demographic changes on college enrollment levels will not be felt equally across all states. During the past decade, the fastest growth of post-secondary enrollment has been concentrated primarily in the Rocky Mountain States

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and the Sunbelt, which consists of the Southeast and Southwest portions of the U.S. The Sunbelt, Pacific and Northeast regions of the U.S. are projected to be the fastest growing regions in college enrollment between 2000 and 2010, fueled by above average growth projections, in the young adult population in these regions.

Among individual states, California, Florida, Texas and New York are projected to have the four largest populations of 18 to 24 year-olds during the next decade, according to the U.S. Census Bureau's April 2005 projections. We expect these states will continue to serve as major immigration gateways, which also should bolster future demographic and accompanying college enrollment growth well into the future. These four states are forecasted to experience the greatest absolute increase in college enrollment. Rounding out the top ten states with the highest absolute population growth projections for 18 to 24 year-olds are North Carolina, Virginia, Maryland, Arizona, Georgia and Washington. As of December 31, 2006, more than 38% of our student housing properties were located in these top 10 states.

As of December 31, 2006 and based on the U.S. Census Bureau's April 2005 projections, the states in which we owned properties were projected to experience an average growth of 11.9% in the 18 to 24 year-old population, which is an average of 84,221 persons between 2000 and 2010.

We believe that these projected increases in the 18 to 24 year-old population and in college student enrollment will place a greater demand on off-campus student housing. While both on- and off-campus student housing markets will compete for these additional students, we believe that existing on-campus properties will be at a disadvantage because, according to NCES data, those properties tend to be older units that have not been sufficiently expanded, renovated or modernized to meet students' increasing needs and expectations.

#### *Highly Fragmented Ownership of Student Housing Properties*

The student housing market is highly fragmented, and consolidation in the industry has been limited. Based upon our internal competitive analysis estimates, we believe that there are fewer than 12 firms that own a multi-regional network of off-campus student housing properties and have the ability to offer an integrated range of specialized student housing services, including design, construction and financing.

Our management experience suggests that none of the specialized student housing firms dominates a particular region. Instead, they each seek to maintain a presence in multiple markets with large student populations. Therefore, most are active in the same markets, particularly Texas, California, Florida, Georgia, North Carolina and Pennsylvania, due primarily to the presence of large state university systems that allow developers and operators to take advantage of economies of scale. In contrast, the Northeast, Southwest and Pacific Northwest are three regions in which small, local owner-operators have significant market share.

#### *Status of the On-Campus Student Housing Market*

As student enrollment increases, we believe that one of the biggest challenges facing many colleges and universities is an antiquated student housing infrastructure. In addition to the need for additional housing to accommodate an expanding student population, universities must also deal with the problems of maintaining, refurbishing and marketing their aging existing inventory. Many schools have undertaken large-scale renovations and others are under pressure to follow suit to stay competitive. In addition to significant cosmetic upgrades, outdated heating and plumbing systems and roofs and windows are being replaced in many on-campus housing facilities. In some cases, institutions are finding that the costs of renovations are often prohibitive and are opting to take existing facilities out of service, thereby creating a greater demand for off-campus student housing.

In addition, various amenities that used to be considered rare luxuries in the student housing industry, such as kitchens, private bedrooms and bathrooms, Internet connectivity and cable television systems, and a washer and dryer in each unit, are now more common and increasingly becoming a factor in a student's housing and university selection.

In addition to increasing costs associated with the renovation of existing on-campus student housing by colleges and universities, budget deficits or budget restrictions are affecting the amount of funds available to colleges and universities for education, thereby limiting states' abilities to increase funding for student housing projects. According to the Center for the Study of Education Policy, state appropriations for higher education have been decreasing consistently. Each state's ability to boost post secondary education spending, while simultaneously handling the strain on health care budgets from a rapidly aging population and increasing funding to primary and secondary education, remains to be seen. Traditionally, both health care and primary education have taken precedence over higher education for political reasons. Based on information provided by the Association of Governing Boards of Colleges and Universities, we believe it is unlikely that states will have enough money to fund all programs completely. As a result of these trends in state budgets, we believe public universities' finances are straining their capacity to fund significant capital projects such as student housing.



*Supply of Student Housing*

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Based upon current projections of enrollment growth, we believe that colleges and universities will be unable to meet the increase in student housing demand with traditional on-campus housing, thereby creating incremental demand for off-campus student housing. Furthermore, our management experience suggests that college and university students increasingly prefer to live in modern, off-campus housing that provides greater privacy and modern amenities, rather than live in on-campus dormitories. Consequently, we believe colleges and universities are turning to private sector developers to bridge the gap between demand for on- and off-campus housing and their ability to provide additional on-campus housing from their own capital resources.

We expect new construction and development by colleges and universities, various commercial developers, real estate companies and other owners of real estate that are engaged in the construction and development of student housing to compete with us in meeting the anticipated increased demand in student housing over the next 10 years. The development and construction of new student housing properties is extremely capital intensive. Since leases are typically executed for an August or September delivery, construction delays can cause late completion and jeopardize rents for an entire year. As a result, we are pursuing several development opportunities in high barrier-to-entry markets, but we intend to focus our efforts on acquiring existing properties or acquiring newly constructed properties from third party developers in our target markets.

We believe that we are well-positioned to capitalize on the projected shortage of student housing in the U.S. due to our management's experience in the student housing industry, the economies of scale afforded by our size, our access to capital for the acquisition of additional student housing, our high quality student housing product and our systems designed to optimize student housing operations.

### *Management Services*

As of March 31, 2007, we managed all of the student housing properties owned by us and 18 student housing properties not owned by us. We manage the student housing properties not owned by us through our taxable REIT subsidiary, College Park Management TRS, Inc. For more information regarding the properties we manage for others, see the section of this prospectus under *Our Business and Properties*.

### *Investment Criteria*

In analyzing proposed student housing acquisitions, we consider various factors including, among others, the following:

- the ability to increase rent and maximize cash flow from the student housing properties under consideration;
- whether the student housing properties are accretive, or will become accretive, to our per share financial performance measures;
- the terms of existing or proposed leases, including a comparison of current or proposed rents and market rents;
- the creditworthiness of the student residents and/or parent guarantors;
- local demographics and college and university enrollment trends, and the occupancy of and demand for similar properties in the market area, specifically population and rental trends;
- the ability to efficiently lease or sublease any unoccupied rentable space;
- the expected capital improvements to be made to the property and the ability of the student housing property to achieve long-term capital appreciation;
- the ability of the student housing property to produce free cash flow for distribution to our shareholders;
- the age and projected residual value of the student housing property;
- the location of the property, including its proximity to a college's or university's main campus or other academic buildings, as well as athletic and other entertainment venues frequented by students;
- the opportunity to expand our network of relationships with colleges and universities as well as other strategic firms; and

- potential effect on our REIT status.

*Underwriting Process*

We have designed our underwriting strategy to enable us to deliver attractive risk-adjusted returns to our shareholders. Our acquisition selection process includes several factors, including a comprehensive analysis of the property's profitability, financial trends in a property's revenues and expenses, barriers to competition, the need in a property's market

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for the type of student housing services provided by the property, the strength of the location of a property and the underlying value of a property. We also analyze the operating history of each property, including the property's earnings, cash flow, occupancy, student mix and anticipated capital improvements, to evaluate its financial and operating strength.

In addition, as part of our due diligence process, we obtain and evaluate title, environmental and other customary third-party reports. Currently, our acquisition/development policy generally requires the approval of our Board of Trustees for all acquisitions and development projects, including acquisitions through joint venture structures, regardless of valuation.

### ***Competition***

We compete with other owners, operators and managers of off-campus student housing in a number of markets. The largest of these competitors are Education Realty Trust (NYSE: EDR) and American Campus Communities, Inc. (NYSE: ACC), each of which are national, publicly-traded companies focused on growing their student housing businesses. We also compete in a number of markets with smaller national and regional companies, such as the following: Place Properties, First Worthing, Ambling Companies, Campus Advantage, The Dinerstein Companies, JPI Student Living, The Preiss Company, Paradigm Properties and University Housing Group. In addition, we compete on a highly localized basis with substantial numbers of small, local owner-operators. Currently, the student housing industry is highly fragmented, with no participant holding a dominant market share on a national level. The entry of one or more additional national or regional companies could increase competition for students and for the acquisition, management and development of student housing properties.

There are various on- and off-campus student housing complexes that compete directly with us located near or in the same general vicinity of many of our current and targeted properties. We also are subject to competition for students from on-campus housing operated by colleges and universities, other public authorities and privately-held firms. We also are subject to competition for the acquisition of off-campus student housing with other existing local, regional and national owners and operators of student housing. Further, we generally believe that the pace and size of acquisitions in the real estate industry have increased significantly over the past 10 years. Consequently, prices have generally increased while return on invested capital has fallen.

### **Military Housing Business**

#### ***Overview***

In order to address poor housing quality, a significant backlog of repairs and rehabilitations to its military housing units on and near bases, and a shortage of affordable, quality private housing available to members of the U.S. military and their families, Congress included the Military Housing Privatization Initiative, or MHPI, in the 1996 National Defense Authorization Act. Under the MHPI, the DoD was granted the authority to award projects to private-sector companies to develop, construct, renovate and manage military housing. Since 1996, according to statistics available on the DoD's website as of March 9, 2007, the U.S. military has awarded to private companies long-term agreements and rights to exclusively negotiate agreements with the U.S. military for 78 domestic projects containing, in the aggregate, a total of 160,366 end-state housing units. The DoD has targeted another 41 domestic projects containing an additional 36,674 end-state housing units that have yet to be awarded by Congress, and agreements for the related development, construction, renovation and management services for these additional projects. According to the DoD, the previously awarded privatization projects and projects under exclusive negotiations, together with these additional targeted projects, reflect the opportunity to develop, construct, renovate and manage a total of 197,040 end-state housing units.

As of March 31, 2007, our operating partnership held an ownership interest in, and operated, through various wholly-owned subsidiaries, 10 military housing privatization projects at the Department of the Army's Fort Stewart, Hunter Army Airfield, Fort Carson, Fort Hamilton, Fort Eustis, Fort Story, Walter Reed Army Medical Center, Fort Detrick, Fort Bliss, White Sands Missile Range, Fort Gordon, Carlisle Barracks/Picatinny Arsenal, as well as four Air Force bases and eight Navy bases. We refer to these 10 projects as the Stewart Hunter project, the Fort Carson project, the Fort Hamilton project, the Fort Eustis/Fort Story project, the Walter Reed/Fort Detrick project, the Fort Bliss/White Sands Missile Range project, the Fort Gordon project, the Carlisle/Picatinny project, the AETC Group I project and the Navy Northeast Region project, respectively. These projects in operation covered 25 domestic bases located in 15 states and Washington D.C., and we expect them to contain approximately 20,364 end-state housing units once full development, construction and renovation have been completed for all the projects.

In addition to our projects in operation at year-end, during the fourth quarter of 2006, the Army selected us to design, construct and manage single soldier housing at Fort Bliss and Fort Stewart, which represent among the first of unaccompanied housing privatization projects awarded by the Army to date and are expected to cover an aggregate of up to 840 end-state housing units. We currently expect to close on the award of these two unaccompanied housing privatization projects before the end of 2007. In addition, on February 26, 2007, we announced that we were selected by the Department of the Navy to enter into exclusive negotiations for the design, construction, management and maintenance of the military family housing at 11



Southeast Region Navy bases in five states. The 50-year term of the Navy Southeast project is expected to commence with a six-year initial development period, or IDP, that is valued in excess of \$700 million and covering approximately 5,501 end-state housing units. On March 8, 2007, we announced that we were selected by the Department of the Army to enter into exclusive negotiations for the family housing privatization project at the U.S. Military Academy at West Point, New York, which is expected to have a five-year IDP with project costs valued in excess of \$160 million and cover 628 end-state housing units. On May 25, 2007, we also announced that we were selected by the Department of the Army to enter into exclusive negotiations for the family housing privatization project at Fort Jackson in Columbia, South Carolina, which is expected to have a six-year IDP with project costs valued in excess of \$180 million and cover 990 end-state housing units.

Each of these military housing privatization projects includes the renovation and management of existing housing units, as well as the development, construction, renovation and management of new units over a 50-year period, which, in the case of the Army, potentially could extend for up to an additional 25 years. The 50-year duration of each project calls for continuing renovation, rehabilitation, demolition and reconstruction of housing units through various predetermined project phases.

Some of the bases included in our military housing privatization projects were targeted for closure or realignment as a result of the most recent round of the Base Realignment and Closure, or BRAC, process, which was initiated in 1988 and reached its fifth and, under current legislation, final round in 2005. On November 9, 2005, the BRAC round was completed when Congress approved the BRAC Commission's recommendations to close the Naval Air Station in Brunswick, Maine and to close the Walter Reed Army Medical Center in Washington, DC. Under the final BRAC list, the possible number of affected military housing units covered by our existing projects was 700 end-state housing units, all of which units are located at the Naval Air Station in Brunswick, Maine. We believe that the closure of the Walter Reed Army Medical Center will not result in the loss of end-state housing units, as these housing units are likely to be utilized by personnel in the greater Washington, DC metropolitan area. In addition to the reduction in end-state housing units resulting from the anticipated closure of the Naval Air Station, we expect that the number of housing units covered at Fort Bliss/White Sands Missile Range projects may increase as a result of base realignments.

We conduct our military development, construction/renovation and management services for all of our projects, other than our most recent AETC Group I project with the Air Force, through our taxable REIT subsidiary, GMH Military Housing, LLC.

***Our Military Housing Privatization Projects in Operation as of December 31, 2006***

As of March 31, 2007, we had an ownership interest in and operated 10 military housing privatization projects. Each of our projects in operation as of March 31, 2007 included the renovation of existing housing units and the construction of new units. The 50-year duration of each project calls for continued renovation, rehabilitation, demolition and reconstruction of the project. The following table provides a summary of the terms of each military housing privatization project in which we owned an interest as of March 31, 2007.



**Military Housing Privatization Projects in Operation  
as of March 31, 2007**

Project Name	Location	Initial Development Period(1)	Initial Development Period Expected Completion Date	Initial Development Period Project Costs(2) (in millions)	Expected End-State Housing Units at Initial Development Period Completion Date
Fort Stewart and Hunter Army Airfield	Hinesville, GA Savannah, GA	8 years	October 2011	\$ 358.2	1,868 new units
					1,597 renovated units
Fort Carson(4)	Colorado Springs, CO	5 years	Completed	Completed	237 existing units(3)
					<b>3,702</b> 841 new units
Fort Carson Expansion	Colorado Springs, CO	3 years	November 2009	124.3	1,823 renovated units
					<b>2,664</b> <b>396</b> 185 new units
Fort Hamilton(5)	Brooklyn, NY	3 years	May 2007	54.9	43 renovated units
					<b>228</b>
Walter Reed Army Medical Center/ Fort Detrick(6)	Washington, DC Frederick, MD	4 years	June 2008	89.3	407 new units
					156 renovated units
Fort Eustis/Fort Story	Newport News, VA Virginia Beach, VA	6 years	February 2011	167.0	36 existing units(3)
					<b>599</b> 651 new units
Fort Bliss/White Sands Missile Range(7)	El Paso, TX Las Cruces, NM	6 years	June 2011	440.5	473 renovated units
					<b>1,124</b> 1,959 new units
Navy Northeast Region(8)	Brunswick, ME; Kittery, ME; Newport, RI; Groton, CT; Saratoga Springs, NY; Long Island, NY; Colts Neck, NJ; Lakehurst, NJ	6 years	October 2010	612.8	1,178 renovated units
					140 existing units(3)
Fort Gordon	Augusta, GA	6 years	April 2012	110.5	<b>3,277</b> 310 new units
					577 renovated units
Carlisle/Picatiny	Carlisle, PA Dover, NJ	5 years	July 2011	78.2	<b>887</b> 209 new units
					110 renovated units
AETC Group I(9)	Altus, OK;				29 existing units(3)
					<b>348</b> 884 new units

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	Wichita Falls, TX				1,278	renovated units
	Panama City, FL				713	existing units
	Phoenix, AZ	5 years	January 2012	336.0	<b>2,875</b>	
<b>Total</b>				<b>\$ 2,371.7</b>	<b>20,364</b>	

- (1) The first phase of the project, known as the initial development period, covers the period of initial construction or renovation of military housing on a base, typically lasting three to eight years.
- (2) As of December 31, 2006, represents estimated total project costs for the initial development period, including closing, development, construction, financing and related costs and excluding estimated capitalized interest associated with the project. These total project costs are determined at the time we and the relevant military branch execute definitive business agreements to commence the project, and may be modified only upon the approval of a formal change order, which may affect the term of the initial development period as well. See also the section of this prospectus titled *Risk Factors Risks Related to our Military Housing Business*.
- (3) These units will not be renovated during the initial development period.
- (4) Additional financing for the expansion of the Fort Carson project was completed during the fourth quarter of 2006.
- (5) We are currently in the process of modifying the remaining renovation scope and schedule for this project in order to reduce the originally agreed upon renovation costs and to extend the timing for completion. These modifications are not expected to materially impact our renovation fees from this project.
- (6) Walter Reed has been designated for closure under BRAC. We believe that the closure will not result in the loss of housing units, as these housing units are likely to be utilized by personnel who will be relocating from Walter Reed to nearby military medical facilities.
- (7) We are in discussions with the Department of the Army to review the possibility of expanding the number of end-state housing units covered by this project, which if approved, would likely require the placement of additional debt financing on the project

(8) We are in the process of finalizing plans with the Navy to restructure the terms and debt financing for the Navy Northeast Region project as a result of the (i) anticipated closure of the Naval Air Station in Brunswick, Maine, which covers approximately 700 end-state housing units and (ii) need to further reduce the number of end-state housing units for the project overall by an approximate 620 end-state housing units due to changes in area housing market conditions that are affecting occupancy rates for the project. See also the section of this prospectus titled *Risk Factors Risks Related to our Military Housing Business*.

(9) We closed on the award of this project in February 2007, at which time we commenced operations. With respect to this project, the number of units for which we commenced management services as of February 2007 is greater than the expected end-state housing units upon completion of the IDP.

#### ***Military Housing Privatization Initiative***

The MHPI is a program authorized under the 1996 National Defense Authorization Act that allows the DoD to award military housing privatization projects to private sector operators. Under the MHPI, private-sector developers may own, operate, maintain, improve and assume responsibility for housing on U.S. military bases. According to the authority granted to it by the MHPI, the DoD can work with the private sector to revitalize military housing over a 50-year ground lease period by employing a variety of financial tools to obtain private capital to leverage government dollars, make efficient use of limited resources and use a variety of private-sector approaches to build and renovate military housing faster and at a lower cost to U.S. taxpayers.

The MHPI is designed to remedy both the poor condition and shortage of current military housing. According to the DoD, in 1997 it owned approximately 300,000 family housing units, on and off U.S. military bases, and estimated that more than 50% of these units required renovation or replacement as a result of insufficient maintenance or modernization over the previous 30 years. The DoD believes that improving the poor housing conditions as well as the shortage of quality, affordable private housing on military bases will significantly improve the morale and quality of life for members of the U.S. military and their families, thereby boosting retention and enrollment in today's voluntary military forces. The majority of members of the U.S. military and their families live in local communities near U.S. military bases. Most of these members of the U.S. military are enlisted personnel whose salaries are at the lower end of the military pay scale. Their salaries make it difficult for them to find quality, affordable housing within a reasonable commuting distance. Furthermore, many of these communities do not have enough affordable, quality rental housing to accommodate members of the U.S. military and their families. The MHPI provides a creative and effective solution to address the quality housing shortage, and will result in the construction of more housing built to market standards for less money than through the military's own construction process. Furthermore, traditional military construction requires contractors to adhere to stringent military specifications, which make projects significantly more costly than building to market standards. Commercial construction is both faster and less costly than military construction, and private-sector funds significantly stretch and leverage the DoD's limited housing funds and, at the same time, open the military construction market to a greater number of development firms and stimulate the economy through increased building activity.

#### ***Competitive Bidding Process for Military Housing Privatization Projects***

In order to implement the MHPI and foster a coordinated approach by the military branches, the DoD created the Housing and Competitive Sourcing Office to develop the legal, financial and operational aspects of the MHPI. Each military branch assesses its own current and future housing requirements, and determines the best course of action necessary for revitalizing inadequate housing units and keeping its housing inventory in good condition. Each military branch also individually assesses the viability of particular privatization projects and makes the final decision whether to privatize housing on a particular base, taking into consideration housing needs and available resources of that branch. Once the military branch and the Office of the Secretary of Defense approve site development, they conduct an industry forum to obtain private-sector input. Though each military branch must follow certain general DoD policy guidelines, each service branch has its own privatization project award program. The solicitation process differs slightly among the various military branches; however, in all cases, a competitive bidding process is the method by which projects are awarded to private-sector developers. Projects are introduced to the private sector through the use of a request for proposal or a request for qualifications. Developers that satisfy the respective military branch's requirements respond with detailed project proposals, and a selection is made from among them. The project winner is awarded the exclusive right to negotiate the final plan, and assuming approval of such final plan, to develop, construct, renovate and manage family housing at a military base, which, based on our experience, is typically for a 50-year period and, in the case of the Army, contains certain extension rights.

Based on our experience, during the exclusivity period for an Army project, which typically lasts between six and 12 months, the project winner initially enters into a contract with the Army pursuant to which it will create a community development and management plan, or CDMP, relating to the planned development of the awarded project. If the CDMP is approved by Congress, the project winner enters a transition period, ranging from 60 to 90 days, during which it prepares to implement its CDMP, finalizes documentation relating to the implementation of the

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CDMP, including arranging and negotiating necessary financing and negotiating final documents and agreements with the Army, and prepares to take over the base housing operations on the date of closing. Closing occurs after the transition period when all the documentation and negotiations with the Army have been finalized, at which point the project winner may commence its operation of the project.

Based on our experience, during the period of exclusive negotiations with the Navy, the project winner works towards finalization of required project and environmental documentation, pursues local approvals, develops design plans and working drawings, reaches an agreement with the Naval officials regarding all aspects of the project, and arranges and negotiates necessary financing. Also based on our experience to date, the Air Force ranks bidders based on numerous factors and then enters into exclusive discussions with the highest ranking bidder. If the highest ranking bidder meets the Air Force's requirements and the project is approved by Congress, then that bidder becomes the successful bidder. The successful bidder is then authorized by the Air Force to close the transaction.

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The result of these exclusive negotiations will be business agreements that describe all relevant characteristics of the development, and defines all business terms and conditions, schedules and financial arrangements between the parties. This process generally takes approximately six to 12 months to complete from the time of the award to the execution of the business agreement.

***Organizational Structure of Our Military Housing Privatization Projects***

The operations of our military housing privatization projects are generally conducted through an organizational structure that involves two wholly owned subsidiaries of our operating partnership, GMH Military Housing Investments LLC and one of our taxable REIT subsidiaries, GMH Military Housing, LLC. GMH Military Housing Investments LLC owns equity interests in the various projects. GMH Military Housing, LLC develops, manages and sometimes constructs/renovates the military housing in all of our projects, other than our AETC Group I project, through two of its subsidiaries: GMH Military Housing Development LLC and GMH Military Housing Management LLC, which are referred to as GMH Development and GMH Management, respectively, throughout this prospectus. This organizational structure is described as follows:

*The Project Entity.* We typically create a project-specific limited liability company or limited partnership, the Project LLC, to serve as the managing member of the Project Owner. In most of our projects, the Project LLC is a joint venture between GMH Military Housing Investments LLC and a joint venture partner. The joint venture partner typically is a third-party architectural and/or design company or construction company with whom we have an existing relationship. GMH Military Housing Investments LLC is the manager of the Project LLC.

In the case of our Navy project, the Project Owner is a joint venture between the Navy and the Project LLC. The Project Owner is created for the purpose of owning the project. The Project Owner is also the ground lessee of the land upon which the project is situated. The Project Owner contracts with GMH Development for project development services, GMH Management for property and asset management, and another wholly owned subsidiary of GMH Military Housing, LLC for design/build services. That design/build entity subcontracts with (i) a joint venture partner for project architectural and design services, (ii) a third party construction company for construction services, and (iii) GMH Management for construction/renovation services. Our Navy project is financed through a combination of equity from the Project Owner and third-party debt.

In the case of our Army projects, the Project Owner is a joint venture between the Army and the Project LLC. The Project Owner contracts with GMH Development, GMH Management and a third-party partner for development, management, renovation, architectural and design and construction services. The Project Owner is created for the purpose of owning the project. The Project Owner also is the ground lessee of the land upon which the project is situated. The Project LLC is typically the manager of the Project Owner. The Army projects are financed through a combination of equity, provided by the Project LLC and the Army (which typically approximates up to 10% of the total project value), and third-party debt (which is typically up to 90% of the total project value).

In the case of our AETC Group I project, the Project Owner is owned entirely by the Project LLC. In the AETC Group I project, the Project Owner contracts with another subsidiary of GMH Military Housing Investments LLC, GMH AETC Management/Development LLC, for property and management, renovation and development services and with third-party providers for architectural/design and construction services. The Project Owner owns the project and is the ground lessee of the land upon which the AETC project is situated. The Project LLC is the manager of the Project Owner. The AETC project is financed through equity provided by the Project LLC and a third-party construction and permanent loan.

*Debt Financing for the Project.* Financing for our projects is procured through either taxable revenue bonds or conventional commercial lending. Financing is typically obtained at the project closing, which occurs on the date that the relevant branch of the U.S. military transfers operation and management of those housing units at the project to the Project Owner. Based on our management's experience, we believe the terms of the debt are consistent with the terms typically used for conventional multi-family housing projects. In each instance, the debt generally is non-recourse to us and is secured by a first priority lien on the project and requires the assignment of all of the Project Owner's rights for the benefit of the bondholders or the lender, as applicable. The security therefore includes the Project Owner's interest in the ground lease. Based on our experience, the repayment terms require payments of interest only during the first three to seven years of the loan and, thereafter, payments of interest and principal, amortized over a 35- to 45-year period, for the remaining term of the loan. While the Project LLC is able to obtain debt financing for up to 90% of the total value of each project, based on our management's experience, lenders typically will not lend in excess of a specified debt service coverage ratio projected for the first stabilized year following the end of the initial development period (typically ranging from three to eight years, out of the 50-year project term). Accordingly, if interest rates increase, the Project LLC may be required to finance a greater portion of the project cost with equity. In

addition, if the minimum debt service coverage is not met, we may not have access to cash flows from the project, other than for project operating expenses, until the debt service coverage is restored.

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The following diagram shows the structure of all of our projects, other than our AETC Group I project:

As its contribution to the project, the U.S. military branch contributes the existing houses and related improvements and may also contribute cash. The Project LLC also contributes cash, typically at the end of the initial development period for our Army projects, and at the outset of the initial development period, for our Navy project. For the AETC Group I project, the Project LLC contributes cash at the outset of the initial development period. Typically, the Project LLC and the U.S. military branch are not required to make additional capital contributions to the project, and neither is permitted to make any additional contribution to the project without the approval of the other. The Project LLC's return on investment is dependent on both the structure of the transaction and the U.S. military branch involved.

*The Development Company.* GMH Development provides development services to our privatization projects, other than the AETC Group I project. These services are provided through development agreements typically having 50-year terms, which extend automatically upon any renewal of the related ground lease. GMH Development generally assists the Project Owner by coordinating and monitoring the planning, design, demolition, renovation and construction activities on the Project Owner's behalf, including the evaluation of project sites and requirements for each project, assisting the Project Owner with the development of the project schedule and budget, establishing coordination between the relevant military branch and primary contractors, reviewing completed construction and renovation work, and certifying payments or primary contractors for such work. GMH Development also establishes and implements administrative and financial controls for the design and construction of the project and assists the Project Owner in obtaining and maintaining general liability insurance and other types of insurance. These services are provided by GMH AETC Management/Development LLC in the AETC Group I project.

The Project Owner pays GMH Development a base fee equal to a percentage of the total development costs for the project, from the beginning of the initial development period throughout the life of the project. Additionally, GMH Development typically is entitled to receive incentive development fees from the Project Owner upon the satisfaction of designated milestones. During the initial development period, GMH Development is entitled to receive an incentive fee which is based upon a total of the development costs during the period. After the initial development period of a project, the incentive development fees typically are a percentage of total development costs for the remainder of the project term. Milestones for payment of incentive development fees typically include completing a specified number of homes according to schedule, achieving specific safety records and implementing small business or minority subcontracting plans. The combined base and incentive development fees generally ranges from 3.0% to 4.0% for our current projects.

The Project Owner generally may terminate the development agreement upon written notice to GMH Development if it breaches any of its material obligations under the management agreement and fails to cure such breach within 30 days.

*The Construction/Renovation Company and Property Manager.* GMH Management provides construction/renovation and property management services to our privatization projects. Construction/renovation refers to the minor and major renovation work that we perform at our projects. The agreements for work performed at our projects are typically structured as up to a maximum allowance for renovation work that is agreed upon at the initial closing of the project, but providing that the parties will have to mutually agree upon the actual scope of the renovation work to be performed (either above or below that allowance) immediately prior to the actual commencement of the renovation work. As a result, the extent of the renovation work to be performed for a project may change significantly from the terms as contemplated at the commencement of the project operations. The Project Owner pays GMH Management a base fee equal to a percentage of the total construction/renovation costs for the project, from the beginning of the initial development period throughout the life of the project. Additionally, GMH Management typically is entitled to receive construction/renovation



incentive fees from the Project Owner upon the satisfaction of designated milestones. During the initial development period, GMH Management is entitled to receive an incentive fee which is based upon a total of the construction/renovation costs during the period. After the initial development period of a project, the construction/renovation incentive fees are a percentage of total construction/renovation costs for the remainder of the project term. Milestones for payment of construction/renovation incentive fees typically include completing a specified number of homes according to schedule, achieving specific safety records and implementing small business or minority subcontracting plans. The combined base and incentive construction/renovation fee generally ranges from 3.0% to 4.0% for our current projects.

In addition, in certain instances, GMH Management may receive fees relating to the performance of pre-construction/renovation services. These pre-construction/renovation fees are determined on a project-by-project basis, and are paid in proportion to the amount of pre-construction/renovation costs incurred by GMH Management for the project.

With regard to property management, the Project Owner contracts with GMH Management to provide property management services for the project. These services are provided through management agreements, typically having 50-year terms, which extend automatically upon any renewal of the applicable ground lease. GMH Management oversees the leasing of housing units in accordance with the requirements of the ground lease, day-to-day operations of the project, collection of revenues and depositing the revenues into appropriate accounts, day-to-day maintenance of the project, ordinary repairs, decorations, alterations and improvements, completion of backlogged maintenance and repairs, payment of taxes imposed on the project, and compliance with applicable laws and regulations.

GMH Management typically is required to prepare and submit an operating budget for the project to the Project Owner on an annual basis. The management agreement typically grants GMH Management the authority to make expenditures and incur obligations included in the operating budget. GMH Management also has the authority to make certain emergency expenditures.

As standard compensation for the services it provides, in general, GMH Management is paid a base fee, equal to a percentage of effective gross revenue for the project. In addition, GMH Management is entitled to receive an incentive fee from the Project Owner upon the satisfaction of designated benchmarks relating to emergency work order responses, occupancy rates, home turnover and resident satisfaction surveys. The combined base and incentive management fee generally ranges from 3.0% to 4.5% for our current projects.

The Project Owner generally may terminate the management agreement upon written notice to GMH Management if it breaches any of its material obligations under the management agreement and fails to cure such breach within 30 days.

Property management and renovation services for the AETC Group I project are provided by GMH AETC Management/Development LLC.

*Design/Build Agreement.* In our Navy project, the Project Owner entered into a design/build agreement with a subsidiary of GMH Military Housing, LLC for construction, renovation and architectural and design services that are provided through subcontracts with GMH Management and certain third parties.

*The Ground Lease.* In all our projects, the Project Owner and the Army, Navy or Air Force, as applicable, enter into a ground lease pursuant to which the U.S. military branch leases to the Project Owner the real property upon which a particular privatization project is located. We expect future-awarded privatization projects to operate in a similar fashion. Typically, the initial term of a ground lease is 50 years. With respect to Army privatization projects, the ground lease may be renewable for an additional period of up to 25 years upon request by the Army and acceptance by the Project Owner. As partial consideration for the execution of a ground lease and performance of its obligations thereunder, the Project Owner agrees to design, develop, manage, rehabilitate, renovate and maintain the privatization project. At all times during the term of a ground lease, the U.S. military branch provides the Project Owner access to the privatization project. The use and occupancy of the privatization project is subject to the general supervision and approval of the applicable military branch, and to such rules and regulations as the U.S. military branch prescribes. The Project Owner has the right to lease housing units to non-military or non-DoD tenants if vacancy rates hit certain levels.

Some of the Army ground leases and the Air Force ground lease provide that in the event a base is subject to closure under the BRAC regulations, the Project LLC has the option, subject to then-existing applicable law, to acquire fee simple title to the real property. There is no guarantee that any purchase option agreement will be enforceable or that any corresponding purchase option will be exercisable in the event of a base closure under BRAC. The ground leases on our Navy project, and some of our Army projects, do not provide the Project LLC with a purchase option upon a base closure under BRAC.

*Basic Allowance for Housing*

The U.S. military's Basic Allowance for Housing, or BAH, is the primary source of operating revenues of our military housing privatization projects. BAH is a cost of living stipend distributed monthly by the DoD to members of the U.S. military to cover their and their families' costs of living (i.e., rent and utility expenses) in privately-owned housing, on or near bases. The intent of BAH is to provide members of the U.S. military equivalent and equitable housing compensation

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based upon the market prices of rental housing in the local housing markets surrounding the U.S. military bases. Each year, Congress must appropriate an aggregate budget for BAH for all of the military branches.

The DoD adjusts, on an annual basis, the BAH stipend to be received by each individual member of the U.S. military to reflect changes in the profile of that particular individual member of the U.S. military. Specifically, a BAH stipend is computed by estimating the market price of housing that the member of the U.S. military would be expected to rent, based upon his or her geographic area, pay grade and number of dependents, adding in average utilities and insurance. The particular geographic area surrounding a military base is called a Military Housing Area, or MHA. In computing a BAH, MHA price data for rentals, average utilities and insurance is collected annually in the spring and summer months when housing markets are most active. Pricing information is surveyed from local apartments, townhouses and duplexes, as well as from single-family rental units of various bedroom sizes. Although BAH rates can decrease for a geographic duty location, members of the U.S. military that collect BAH cannot have the amount of their BAH decreased unless a change in status occurs (except that promotions are specifically excluded in the definition of a change in status), such as a base transfer, a decrease in pay grade or a change in the number of dependents.

### ***Revenue Stream***

Typically, a member of the U.S. military who is leasing a housing unit on one of our project bases will elect for his or her monthly BAH to be directly deposited by the government, via wire transfer, into an operating revenue fund controlled by the Project Owner, subject to certain restrictive covenants required by any outstanding construction finance bonds. Rental revenues derived from BAH are subsequently paid out of the operating revenue fund by the Project Owner according to a distributive waterfall plan set forth in the Project Owner operating agreement. In general, the BAH revenues associated with our current privatization projects flow out of the operating revenue fund on a monthly basis.

- *Operating and Other Expenses.* Operating activities include normal administrative, leasing, marketing and maintenance functions consistent with a typical conventional multi-family project. Expenses relating to these operating activities are financed through equity contributions from the DoD and the Project LLC, debt financing and other operating cash flow derived from BAH. Revenues first are applied to pay operating expenses, including GMH Management's standard management fee, equal to a percentage of project revenues derived from BAH, monthly utilities, insurance premiums, real estate taxes, if any, and other routine maintenance expenses, such as landscaping and preventative maintenance, associated with the housing units.
- *Debt Service (including amortization) and Capital Reserves and Replacements.* The Project Owner then uses remaining revenues to pay down principal and interest on any outstanding indebtedness that was issued to finance a portion of the costs of design, demolition, construction, replacement and renovation of housing on a particular military base. Debt financing, including taxable revenue bonds and commercial lending arrangements, typically covers up to 90% of total project costs. The indebtedness is fully funded at the time we enter into definitive agreements for the project. This indebtedness typically requires payments of interest only during the first three to seven years and is amortized over the remainder of its 35 to 45 year term. The Project LLC allocates revenues to make capital repairs or replacements on any of the existing housing units, such as roofing or siding repairs.
- *Incentive-based Subordinated Management Fee.* GMH Management next receives its incentive management fee, equal to a percentage of project revenues, derived from any excess rental revenues from BAH, upon satisfying debt service and certain benchmarks.
- *Construction/Renovation Fees and Development Fees.* At the start of a project's initial development period, which typically ranges from three to eight years and continues throughout the term of the project as we renovate existing housing and develop and construct additional housing on a particular military base, GMH Management and GMH Development are entitled to receive standard and incentive construction/renovation and development fees, respectively. In addition, in certain instances, GMH Management may receive fees relating to the performance of pre-construction/renovation services. These pre-construction/renovation fees are determined on a project-by-project basis, and are paid in proportion to the amount of pre-construction/renovation costs incurred by GMH Management for the project. Construction/renovation fees are equal to a percentage of the total construction/renovation costs, and development fees are equal to a percentage of the total development costs. Development costs include hard costs

associated with new construction/renovation, as well as certain soft costs. Generally, the majority of new construction work is completed during the beginning years of an initial development period, while construction/renovation work is completed throughout the initial development period. During the initial development period these costs are paid out of a construction account, which is funded by excess cash flow from rental revenues and proceeds from equity contributions and debt offerings. Excess cash flow, for purposes of funding the construction account, includes cash flow available from BAH rental revenues after payment of operating expenses, debt service, subordinated management fees and preferred returns (to the extent such preferred returns have not been deferred as part of the

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project financing). The construction account may have an equity sub-account to the extent of equity contributed to the Project LLC. Subsequent to the initial development period, all remaining funds are transferred to a reinvestment account and the construction account is closed. Construction, development and renovation costs will be paid out of the reinvestment account to continuously construct, renovate and rebuild a project. The payment of construction/renovation fees and development fees to us during the life of a project is not subordinate to the payment of any other fees.

- *Preferred Return.* The Project LLC will typically receive, to the extent that adequate funds are available, an annual, minimum preferred rate of return. On our existing projects, this annual minimum preferred rate of return ranges from 9% to 12% of the Project LLC's initial equity contribution to the project. It should be noted, however, that during the initial development period, the Project Owner is precluded from distributing funds to pay the Project LLC the minimum preferred rate of return. The unpaid amounts generally will accrue and accumulate, and can be used to fund renovation and construction costs, if necessary. If the accumulated funds are not needed to fund renovation and construction costs, they would, at the end of the initial development period, be distributed to pay accrued preferred returns to the Project LLC.
- *Split of Remaining Revenues.* Subsequent to the initial development period, any revenues remaining after the annual, minimum preferred rate of return is paid, as described above, are split between the Project LLC and the reinvestment account held by the Project Owner for the benefit of the government. On our existing projects, the total amount that the Project LLC is entitled to receive (inclusive of the preferred return) is generally capped at an annual, modified rate of return, or cash-on-cash return, of between 11% and 17% (depending on the particular project) on its initial equity contribution to the project. The total capital return generally will include the annual, minimum preferred return discussed above. The reinvestment account is an account established for the benefit of the military, but funds may be withdrawn for ongoing construction, development and renovation costs during the remaining life of a privatization project only upon approval of the applicable military branch.
- *Return of Equity.* Generally, at the end of a project term, any monies remaining in the reinvestment account are distributed to the Project LLC and the Army, Navy or Air Force, as applicable, in a predetermined order of priority. Typically these distributions will have the effect of providing the Project LLC with sufficient funds to provide a minimum annual return over the life of the project and to result in a complete return of its initial capital contribution. After payment to the Project LLC of the minimum annual return and the return of its initial contribution, all remaining funds will typically be distributed to the Army, Navy or Air Force, as applicable.

In addition, we receive fees from our relationship partners that provide architectural and design or construction services for our military housing privatization projects. These fees are for our efforts and expenses incurred while competing for a privatization project award from one of the U.S. military branches, with such a project award not just benefiting us, but our relationship partners as well. Some examples of the business development services provided by us for the benefit of our relationship partners include acting as the point of contact for, coordinating discussions with, and preparing and making presentations to, the DoD. Additionally, we take the lead in preparing and drafting the transaction documents for a potential privatization project, evaluating and communicating potential privatization project requirements, coordinating marketing efforts, providing information technology and temporary on-site offices, and facilitating potential pilot programs and other development activities. Typically, our partners pay these fees for our business development services to GMH Management, GMH Development and GMH Military Housing Construction LLC, or GMH Construction, another wholly owned subsidiary of our taxable REIT subsidiary, GMH Military Housing, LLC.

### *Strategy*

*Selective Growth.* By leveraging the substantial industry experience of our management team, we focus on winning military housing privatization projects on which we selectively choose to bid, based on the strategic importance of the base, and the prime location and profit potential for these projects.

*Committed to Superior Management.* In the performance of our obligations under existing military housing privatization projects, our management team has been, and will continue to be, fully committed to ensuring that members of the U.S. military and their families have high quality, safe, attractive and affordable housing.

*Capitalize on Industry Relations.* Our management team has developed relationships with national and regional firms that specialize in residential and military residence community formation and construction. On October 22, 2003, our subsidiary, GMH Military Housing Investments LLC, entered into a joint venture agreement with a subsidiary of The

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Benham Companies, LLC, Benham Military Communities, LLC, which sets forth the terms by which Benham will participate in the equity structure on certain of our privatization projects and provide architectural, engineering and design services on those military privatization projects awarded to us. Under this agreement, we and Benham are permitted to bid on future privatization projects independently of the other. We also maintain business relationships with construction companies, such as Balfour Beatty Construction (formerly know as Centex Construction Company, LLC) and Phelps Development LLC, pursuant to which these third parties provide construction services to certain of our awarded military projects. We team with these companies because of their proven experience in the construction industry, as well as their size and strength to undertake and to bond construction work on the large, complex military housing privatization projects. Additionally, these business partners pay fees to GMH Management, GMH Development or GMH Construction for our business efforts and expenses associated with attracting and winning military privatization projects. We believe that the retention of highly experienced national and regional companies will provide us with significant competitive advantages in pursuing and winning new privatization projects.

*Acquire Existing Military Housing Privatization Projects.* We will consider using our financial strength and management's past experience to acquire competitors or the military housing privatization projects that have been awarded to them. For example, in November 2003, GMH Associates acquired the military housing privatization project for Fort Carson in Colorado Springs, Colorado as well as the right to exclusively negotiate the Fort Eustis/Story project out of unrelated bankruptcy proceedings instituted by an entity affiliated with the J.A. Jones Corporation. In addition, in February 2006, we acquired from American Eagle Communities Northeast, LLC the right to exclusively negotiate the Carlisle/Picatunny project. The military housing privatization projects are typically very large and complex. As a result, they require experienced and committed larger scale operators who have the financial strength to develop, construct, renovate and manage housing units during the initial development period of a project, which typically ranges from three to eight years, and then administer the continuing development, construction, renovation and management of housing for the remainder of the 50-year project term. The obligations to be performed under these projects are extremely difficult for smaller, regionalized companies to meet, and we believe our experience in the military housing market provides us with a material competitive advantage in this regard. As the number of new privatization projects grows, we believe our potential to acquire such projects for additional bases will grow correspondingly.

### ***Market Opportunity***

As of March 9, 2007, according to the information made available by the DoD, the remaining military family housing privatization market contains 36,674 housing units to be privatized through 41 additional projects. These remaining housing units are expected to generate approximately \$590 million in total annual rental revenue based on the 2007 average BAH of approximately \$16,100 per year. As of March 9, 2007, awarded projects and exclusive negotiations represent 160,366 end-state housing units through 78 projects.

Although the DoD's program has focused its efforts almost exclusively on the privatization of family housing, the next stage of development will include the privatization of unaccompanied personnel (bachelor) housing. For example, during the fourth quarter of 2006, the Army selected us to design, construct and manage single soldier housing at Fort Bliss and Fort Stewart, which represent among the first of unaccompanied housing privatization projects awarded by the Army to date and are expected to cover an aggregate of up to 840 end-state housing units. We currently expect to close on the award of these two unaccompanied housing privatization projects before the end of 2007. In addition, the Navy has identified three initial sites which will serve as a pilot program for the privatization of unaccompanied military personnel housing, one of which has yet to be awarded and which we expect to solicit for award during 2007.

We believe the potential market for unaccompanied personnel housing is significantly larger than that for family housing. Given our management's experience in bidding on military housing privatization projects, coupled with their extensive student housing experience, we believe that we will have a competitive advantage in bidding for privatization projects in the unaccompanied housing market; however, we cannot assure you that the DoD will privatize any of these unaccompanied military personnel housing units beyond those that have already been awarded.

Our military housing strategy includes the pursuit of already privatized bases from competitors which have been awarded targeted projects. As the number of new privatization projects grows, the potential for our targeted acquisition of already privatized bases will grow correspondingly.

### ***Additional Military Housing Privatization Projects and Development Opportunities under Review***

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In addition to the military housing privatization projects for which we have been selected, our management team also had under review, as of May 7, 2007, four additional potential privatization project opportunities. These projects span

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multiple bases and total, in the aggregate, approximately 8,800 end-state housing units. Individual projects identified as opportunities range from approximately 900 to 4,700 end-state housing units per project. We consider a project as under review once a base has been identified by the DoD for privatization and our management begins initial due diligence and evaluation of the economic and strategic value of the project. After further due diligence, we may decide not to pursue any of these potential privatization projects.

**Competition**

Competition pursuing this business has evolved from a select number of local and regional development firms in 1996, to a distinguished group of national and international developers, owners and operators of commercial and residential real estate.

**Profile of Major Competitors**

Company Name	Awarded Projects(1)	Number of Units
Actus Lend Lease	10	33,220
Clark Realty	11	32,094
Picerne Military Housing	5	17,559
American Eagle Communities, LLC	6	8,369
Lincoln Properties	10	31,560
Hunt Building Corporation	20	25,912
Equity Residential Properties Trust	1	3,982
Forest City Enterprises	4	7,298

Source: Information reported by the DoD as of March 9, 2007.

(1) Includes projects for which exclusive rights of negotiation have been awarded.

**Financing Strategy**

Our targeted leverage ratio is in the range of 45% to 60%. Our debt level changes as we acquire properties or projects and refinance existing properties. The amount of total indebtedness we decide to incur during any particular period depends on how we structure and finance our property acquisitions and the current market cost of debt. The formula we use to calculate our leverage ratio is as follows:

$$\frac{\text{Total debt}}{\text{Total market capitalization}}$$

As of March 31, 2007, our leverage ratio was approximately 62.9%. Neither our declaration of trust nor our bylaws requires us to maintain a specific leverage ratio and we may determine to exceed the maximum range of our target ratio depending on the circumstances. If we determine to exceed the maximum range of our target ratio, we may do so without shareholder approval. We will generally decide whether to use debt or equity financing to acquire a property by considering the most attractive interest rates, repayment terms and maturity dates available in the marketplace at the time, and customize our financing strategy for each individual transaction. We also may obtain unsecured and/or secured financing through public and private markets. We will access various sources of capital including banks, financial institutions and institutional investors through lines of credit, bridge loans and other arrangements, including joint ventures with third parties. We also may finance the acquisition of properties through additional equity securities offerings, including offerings of preferred or common stock or units of our operating partnership.

We currently have a secured \$100.0 million revolving note facility with Merrill Lynch. As of June 1, 2007, we had approximately \$60.2 million in outstanding borrowings drawn from this facility. For additional information regarding future capital raising transactions and plans to repay borrowings under our note facility, see the section of this prospectus titled *Management's Discussion and Analysis of Financial Condition and Results of Operations 2007 Business Strategy*



Any additional indebtedness that we pursue in the future may be recourse, non-recourse, unsecured, secured or cross-collateralized. If the indebtedness is recourse, general assets of the debtor may be included in the collateral. If the indebtedness is non-recourse, the collateral will be limited to the particular property to which the indebtedness relates. In addition, we may invest in properties subject to existing loans secured by mortgages or similar liens on the properties or refinance properties acquired on a leveraged basis. We may use the proceeds from any borrowings to refinance existing indebtedness, to finance acquisitions or the redevelopment of existing properties, for general working capital or to purchase interests in partnerships or joint ventures.

#### Note Facility

On May 7, 2007, GMH Communities, LP, the Company's operating partnership, executed a Note Purchase Agreement with Merrill Lynch, Pierce, Fenner & Smith Incorporated. Under the terms of the Note Purchase Agreement, the operating partnership may borrow, on a revolving basis through April 30, 2010, up to an aggregate principal amount of \$100.0 million, and subject to certain conditions, up to an additional \$25.0 million for an aggregate of \$125.0 million. The structure of the note facility is such that the operating partnership has issued a global note to Merrill Lynch, as the initial purchaser, and which represents the right to borrow up to an aggregate principal amount of \$100.0 million at any time through April 30, 2010. Merrill Lynch has the right under the agreement to transfer borrowings issued under the global note to qualified institutional buyers in accordance with Rule 144A of the Securities Act of 1933, as amended. On May 7, 2007, our operating partnership issued a note to Merrill Lynch representing approximately \$90.7 million in borrowings under this note facility, which was used to pay a \$1.0 million commitment fee to Merrill Lynch, closing costs associated with obtaining the note facility, as well as outstanding principal and interest due under the Company's line of credit with Wachovia Bank (which was simultaneously terminated). The initial note representing the approximately \$90.7 million in borrowings was issued with an interest rate of 7.07% and has a term through April 30, 2010. On June 1, 2007, we redeemed an outstanding principal amount of notes under the facility equal to \$30.5 million, resulting in a remaining balance of \$60.2 million in principal of notes outstanding. Additional individual notes representing future borrowings under the global note and Note Purchase Agreement may be issued at any time through the term of the note facility upon notice by our operating partnership. The Company will have the ability to repay amounts under outstanding notes and to re-borrow amounts through the issuance of new notes, provided that the maximum amount of notes outstanding at any time during the term of the note facility does not exceed an aggregate principal amount of \$100.0 million, or \$125.0 million to the extent the note facility may be increased.

The notes will be administered under the terms of a Trust Indenture, dated May 7, 2007, between GMH Communities, L.P. and U.S. Bank Trust National Association, as trustee (Trust Indenture). The notes are issuable at an annual interest of LIBOR plus 1.75%, will require monthly payments of interest only, and are secured solely by the fees and equity preferred returns we receive in connection with the Company's 10 military housing privatization projects in operation as of May 7, 2007, as well as those to be received, if any, under the Company's two privatization projects that are under exclusive negotiation as of that date (referred to as the Collateral). The Trust Indenture contains a number of affirmative and negative covenants and also contains financial covenants which, among other things, require that we maintain (i) a fixed charge coverage ratio, as defined in the Trust Indenture, of at least 1.15 to 1.00, calculated on a quarterly basis, (ii) a consolidated tangible net worth, as defined by in the Trust Indenture, of at least \$375 million, (iii) quarterly minimum Adjusted Management EBITDA, as defined in the Trust Indenture, of \$3.5 million, and (iv) our federal tax status as a REIT. In addition, under the terms of the Trust Indenture, the Company must obtain prior written consent for certain transactions, including, but not limited to, (i) a merger or sale of all or substantially all of the Company's assets, (ii) certain amendments to transactions documents relating to the Company's military housing privatization projects to the extent such amendment would result in material adverse change (as defined in the Trust Indenture) or adversely affect the Collateral; (iii) the sale of any equity interest in the operating partnership, other than in connection with the issuance of common shares under the equity incentive plan for GMH Communities Trust or similar equity compensation arrangements, and in connection with acquisitions of student housing properties; (iv) entering into transactions with affiliates relating to or affecting the Collateral; and (v) incurring additional indebtedness, other than indebtedness relating to (a) future property acquisitions or refinancings or equity commitments with respect to the student housing business, (b) financings or refinancings relating to the above-referenced military housing projects that are non-recourse to the Company and subject only to customary bad acts guarantees, (c) equity commitments related to the above-referenced military housing projects that will not become payable prior to the payment in full of obligations under outstanding notes, (d) financings for future military housing projects to the extent such debt is investment grade (at least rated Baa by Moody's Investors Service or BBB Standard & Poor's) and is non-recourse to the Company, and (e) obligations to contribute equity to military housing projects that do not exceed \$15.0 million on an individual basis. The Indenture also includes usual and customary events of default for loans of this nature and provides that, upon the occurrence of an event of default, payment of all amounts payable under outstanding notes may be accelerated and/or the lender's commitment may be terminated. In addition, upon the occurrence of certain insolvency or bankruptcy related events of default, all amounts payable under the note facility shall automatically become immediately due and payable, and the lender's commitment shall automatically terminate.

In connection with the pledge of the Collateral, the operating partnership and several of its direct and indirect subsidiaries relating to the Company's military housing segment entered into a Pledge and Security Agreement, dated May 7, 2007, in favor of U.S. Bank Trust, as trustee (the Pledge and Security Agreement). Pursuant to the Pledge and Security Agreement, the parties thereto granted a security interest in the pledgors' rights, title, ownership, equity or other interests in and to the Collateral. In addition, GMH Communities Trust and several of its direct and indirect subsidiaries relating to the Company's military housing segment executed a Guaranty Agreement, dated May 7, 2007, in favor of the trustee and pursuant to which such guarantors have guaranteed the obligations of the operating partnership under the Trust Indenture.



### **Our Operating Partnership**

We own our properties and conduct substantially all of our business through our operating partnership, GMH Communities, LP, and its subsidiaries. Holders of limited partnership units of our operating partnership, other than us, after a one-year holding period and subject to earlier redemption in certain circumstances, will be able to redeem their limited partnership units for our common shares on a one-for-one basis, subject to adjustments for share splits, dividends, recapitalizations and similar events. At our option, in lieu of issuing common shares upon redemption of limited partnership units, we will be able to pay holders of units a cash amount equal to the then-current value of our common shares, except that Gary M. Holloway, Sr. will have the right to direct us to issue common shares upon redemption of limited partnership units that he or his affiliates own subject to his restriction from owning more than 20% of the Company's outstanding common shares. These redemption rights generally may be exercised by the limited partners at any time after one year. Holders of limited partnership units will receive distributions equivalent to the dividends we pay to holders of our common shares, but holders of limited partnership units will have no voting rights, except in certain limited circumstances. As the sole owner of the general partner of our operating partnership, we have the exclusive power to manage and conduct our operating partnership's business, subject to the limitations described in the partnership agreement of our limited partnership. In connection with the investment by affiliates of Vornado Realty L.P. in our operating partnership, we and our operating partnership have, however, agreed to certain restrictions regarding our activities and assets and the activities and assets of our operating partnership, a violation of which could expose us and our operating partnership to substantial liability for damages. See *Our Business Our Agreements with Vornado Realty L.P. and its Affiliates Restrict our Activities* below.

### **Our Agreements with Vornado Realty Trust and its Affiliates Restrict Our Activities**

In connection with Vornado Realty Trust's investment in our operating partnership as it existed prior to our initial public offering, Vornado also purchased for \$1.0 million a warrant to acquire units of limited partnership interest in our operating partnership, common shares of GMH Communities Trust, or a combination of such units of limited partnership and common shares. Upon closing of our initial public offering, Vornado exercised the warrant to purchase 6,666,667 units of limited partnership interest in our operating partnership at a price of \$7.50 per unit. On May 2, 2006, the warrant exercise period ended, and the remaining portion of the warrant automatically converted into 1,817,247 common shares through a net, or cashless, exercise feature under the warrant.

In connection with Vornado's investment in our operating partnership, we agreed with Vornado to restrict our activities and investments and those of our operating partnership in a manner intended to facilitate our qualification as a REIT and to prevent our direct and indirect activities and assets, and those of our operating partnership, from having adverse

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tax consequences to Vornado and its affiliates and transferees. Among other things, these restrictions require that neither we nor our operating partnership, without Vornado's consent, hold, directly or indirectly:

- securities other than:
  - (i) equity interests in entities that are treated as partnerships or disregarded entities for federal income tax purposes;
  - (ii) stock of corporations for which an election to be a taxable REIT subsidiary will be made, or of entities qualifying as real estate investment trusts for federal income tax purposes; and
  - (iii) securities that are treated as qualifying assets for purposes of the REIT 75% asset test;
- assets that are treated as inventory for federal income tax purposes; or
- REMIC residual interests.

In addition, these restrictions require that neither we nor our operating partnership, without Vornado's consent, directly or indirectly:

- provide services other than specified services to tenants of our properties other than through an independent contractor or through a taxable REIT subsidiary; or
- operate or manage a health care facility or a hotel or similar facility.

If we breach these restrictions and, as a result, Vornado or certain of its affiliates or transferees fails to qualify as a REIT or otherwise incurs liability for taxes, penalties or similar charges, we and our operating partnership will be required to indemnify Vornado or certain of its affiliates or transferees for all losses, liabilities, costs and expenses attributable to the breach, which may be substantial.

### **Taxable REIT Subsidiaries**

GMH Communities TRS, Inc., a taxable REIT subsidiary that is wholly owned by our operating partnership, is the parent company of both College Park Management TRS, Inc. and GMH Military Housing, LLC. College Park Management TRS, Inc. is the taxable REIT subsidiary through which we provide property management services to certain third party owners of student housing properties, including colleges, universities and other private owners. GMH Military Housing, LLC is the taxable REIT subsidiary through which we manage the development, construction and operation of the properties in our military housing business, among other services that neither we nor our operating partnership can undertake directly under applicable REIT tax rules. Each of our taxable REIT subsidiaries pays income taxes at regular corporate rates on their taxable income.

### **Regulatory Matters**

Many laws and governmental regulations are applicable to the properties we own or will own, and changes in the laws and regulations, or their interpretation by agencies and the courts, occur frequently. Our current properties and any additional acquired properties must comply with the Americans with Disabilities Act of 1990, or the ADA, and the Fair Housing Amendments Act of 1988, or the FHAA. Under the ADA, all places of public accommodation are required to meet certain federal requirements related to access and use by disabled persons. The ADA generally requires that public facilities be made accessible to people with disabilities. In order to comply with the ADA requirements, we may be required to make improvements at our properties in order to remove barriers to access.

The FHAA, its state law counterparts and the regulations promulgated by the U.S. Department of Housing and Urban Development prohibit discrimination in the sale, rental and financing of dwellings, and in other housing-related transactions, based on race, color, national origin, religion, sex, familial status (including children under the age of 18 living with parents or legal custodians, pregnant women and people securing custody of children under the age of 18) and handicap or disability, and in some states, on financial capability. Violation of these laws can result in significant damage awards to victims. We have a strong policy against any kind of discriminatory behavior and train our employees to avoid discrimination or the appearance of discrimination. In addition, the FHAA requires apartment properties first occupied after March 13, 1990, to be accessible to the handicapped. The FHAA further requires that we allow residents, at their own expense and subject to our review, to make

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private facilities within our properties accessible to people with disabilities. When requested by residents, we will attempt to make the appropriate and required accommodations to enable them to make the improvements.

Non-compliance with either the ADA or the FHAA could result in the imposition of fines or an award of damages to private litigants. We believe that our current properties are, and properties to be acquired will be, in compliance in all material respects with present ADA and FHAA requirements.

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## Insurance

We maintain general liability insurance that provides coverage for bodily injury and property damage to third parties resulting from our ownership of the properties that are leased and occupied. We believe that our properties are covered adequately by insurance.

## Environmental Matters

Under various federal, state and local environmental laws and regulations, a current or previous owner, operator or tenant of real estate may be required to investigate and clean up hazardous or toxic substances or petroleum product releases or threats of releases at such property and may be held liable to a government entity or to third parties for property damage and for investigation, clean-up and monitoring costs incurred by such parties in connection with the actual or threatened contamination. These laws typically impose clean-up responsibility and liability without regard to fault, or whether or not the owner, operator or tenant knew of or caused the presence of the contamination. The liability under these laws may be joint and several for the full amount of the investigation, clean-up and monitoring costs incurred or to be incurred or actions to be undertaken, although a party held jointly and severally liable may obtain contributions from other identified, solvent, responsible parties of their fair share toward these costs. These costs may be substantial and can exceed the value of the property. The presence of contamination, or the failure to properly remediate contamination, on a property may adversely affect the ability of the owner, operator or tenant to sell or rent that property or to borrow funds using such property as collateral and may adversely impact the value of our investment in that property.

Federal regulations require building owners and those exercising control over a building's management to identify and warn, via signs and labels, of potential hazards posed by workplace exposure to installed asbestos-containing materials and potentially asbestos-containing materials in their building. The regulations also set forth employee training, record keeping and due diligence requirements pertaining to asbestos-containing materials and potentially asbestos-containing materials. Significant fines can be assessed for violation of these regulations. Building owners and those exercising control over a building's management may be subject to an increased risk of personal injury lawsuits by workers and others exposed to asbestos-containing materials and potentially asbestos-containing materials as a result of these regulations. The regulations may affect the value of a building containing asbestos-containing materials and potentially asbestos-containing materials in which we have invested. Federal, state and local laws and regulations also govern the removal, encapsulation, disturbance, handling and disposal of asbestos-containing materials and potentially asbestos-containing materials when such materials are in poor condition or in the event of construction, remodeling, renovation or demolition of a building. Such laws may impose liability for improper handling or a release to the environment of asbestos-containing materials and potentially asbestos-containing materials and may provide for fines to, and for third parties to seek recovery from, owners or operators of real property for personal injury or improper work exposure associated with asbestos-containing materials and potentially asbestos-containing materials.

Prior to closing any property acquisition, we obtain Phase I environmental assessments in order to attempt to identify potential environmental concerns at the properties. These assessments are carried out in accordance with an appropriate level of due diligence and generally include a physical site inspection, a review of relevant federal, state and local environmental and health agency database records, one or more interviews with appropriate site-related personnel, review of the property's chain of title and review of historic aerial photographs and other information on past uses of the property. We may also conduct limited subsurface investigations and test for substances of concern where the results of the Phase I environmental assessments or other information indicates possible contamination or where our consultants recommend such procedures. As of December 31, 2006, we were not aware of any environmental issues regarding our student housing portfolio that would materially adversely affect our student housing business.

While we may purchase many of our properties on an "as is" basis, all of our purchase contracts contain a due diligence contingency clause, which permits us to reject a property because of any due diligence issues discovered at the property.

## Employees

As of December 31, 2006, the student housing business employed 470 full-time employees and 970 part-time employees, the military housing business employed 509 full-time employees and seven part-time employees, and we employed in our corporate staff 124 full-time employees. Employees include those at the property level providing services as well as regional and corporate staff directly providing services to both the student housing and military housing properties. Part-time employees are primarily located at the property level in various student housing resident assistance programs. We believe that our relations with our employees are good. As of December 31, 2006, none of our student housing employees



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were members of an organized labor union; and, with respect to our military housing employees, 13 employees employed at our Fort Gordon project are represented by the Transport Workers Union of America Local 527 and we were in the process of negotiating a collective bargaining agreement with these employees.

**Properties**

*Properties we own.* The 77 student housing properties that we owned or had ownership interests in as of March 31, 2007 consisted of 14,432 units containing 46,696 beds that were located near 51 colleges and universities in 27 states, and had an average occupancy level of 94.4%. The following table presents information regarding the 77 student housing properties, and six undeveloped parcels of land and one partially developed parcel of land that we owned or had ownership interests in as of March 31, 2007 and occupancy rates at, and revenues from, these properties for the year ended December 31, 2006:

Property Name	Year Built/Renovated	Primary University Served	Occupancy Rate(1)	Number of Units(1)	Number of Beds(1)	Revenues(2)
Abbott Place	1999	Michigan State University	98.3	% 222	654	\$ 802
Aztec Corner	1997/2001/2005	San Diego University	97.3	179	600	1,550
Blanton Commons	2005	Valdosta State University	89.9	204	596	3,222
Brookstone Village	1994	University of North Carolina Wilmington	98.3	124	238	877
Burbank Commons	1999	Louisiana State University	100.0	134	532	562
Cambridge at Southern Campus	2006	Georgia Southern University	99.3	228	564	394
Club Gainesville(3)	1997	University of Florida	93.0	252	924	4,493
Campus Club Statesboro	2003	Georgia Southern University	84.6	276	984	4,882
Campus Commons(3)	1991/1993	University of Oregon	97.0	252	696	726
Campus Connection(4)	1998	University of Illinois Urbana Champaign	88.0	270	864	4,166
Campus Connection Phase II(4)	N/A	University of Illinois Urbana Champaign	N/A	N/A	N/A	N/A
Campus Corner	1994	Indiana University	98.4	252	792	1,067
Campus Ridge Apartments(5)	2000	East Tennessee State University	97.9	132	528	1,900
Campus Ridge Apartments Phase II(5)	N/A	East Tennessee State University	N/A	N/A	N/A	N/A
Campus Trails	1997	Mississippi State University	100.0	156	480	391
Campus Walk	2001	University of Mississippi	98.8	108	432	1,964
Campus Walk UNCW	1990	University of North Carolina Wilmington	99.7	289	290	1,578
Campus Way	1998	University of Alabama	99.4	192	676	767
Chapel Ridge	2003	University of North Carolina Chapel Hill	86.2	180	544	3,375
Chapel View	1986	University of North Carolina Chapel Hill	98.0	224	358	1,831
Collegiate Hall	2001	University of Alabama Birmingham	81.1	176	528	2,211
Fields	1999	University of Illinois Urbana Champaign	97.4	192	588	2,916
GrandMarc at Seven Corners	2000	University of Minnesota	100.0	186	440	4,057
GrandMarc at University Village	2001	University of California Riverside	69.3	212	824	5,504
Hawk s Landing	1996	Miami University of Ohio	95.2	122	484	691
Huntsville Land(6)	N/A	Sam Houston State University	N/A	N/A	N/A	N/A
Jacob Heights	2004	Minnesota State University Mankato	96.9	42	162	831
Jacob Heights III	2006	Minnesota State University Mankato	100.0	24	96	203
Lakeside	1991	University of Georgia	90.9	242	772	708
Lincoln View	1994/1999	University of Illinois Urbana Champaign	97.8	254	732	664
Lion s Crossing	1996	Pennsylvania State University	99.7	204	696	2,910
Nittany Crossing	1996	Pennsylvania State University	100.0	204	684	3,348
Orchard Trails(7)	2006	University of Maine Orono	89.4	144	576	(7)
Pegasus Connection	2000	University of Central Florida	99.4	312	930	6,408
Pirate s Cove	2000	East Carolina University	75.8	264	1,056	4,356
Riverside Estates	1995	University of South Carolina	98.4	206	700	788
Seminole Suites(3)	2004	Florida State University Tallahassee	95.7	264	924	5,253
South View Apartments	1996-1998	James Madison University	100.0	240	960	4,343
Stadium Suites	2004	University of South Carolina	99.9	264	924	3,620
State College Park	1991	Pennsylvania State University	99.9	196	752	3,459
Stone Gate Apartments	1999-2000	James Madison University	99.9	168	672	3,126
The Centre	2004	Western Michigan University	92.0	232	700	3,057

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The Club	1989/2001	University of Georgia	99.0	120	480	1,662
The Commons	1991	James Madison University	97.9	132	528	2,153
The Commons on Oak Tree	1995	University of Oklahoma	76.5	254	780	2,389
The Courtyards	1993	University of Kentucky	83.6	182	676	703
The Edge I(3)	1998	University of North Carolina Charlotte	100.0	96	384	1,911
The Edge II(3)	1999	University of North Carolina Charlotte	100.0	84	336	1,579
The Enclave	2002	Bowling Green State University	86.3	120	480	1,748
The Enclave Phase II(7)	2006	Bowling Green State University	76.6	144	576	(7)
The Highlands	2004	University of Nevada Reno	94.4	216	732	3,363
The Ridge(3)	2002	West Virginia University	100.0	168	644	2,988
The Summit	2003	Minnesota State University Mankato	99.4	192	672	3,532

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Property Name	Year Built/Renovated	Primary University Served	Occupancy Rate(1)	Number of Units(1)	Number of Beds(1)	Revenues(2)
The Towers at Third	1973	University of Illinois Urbana Champaign	98.0	% 147	295	\$ 2,941
The Verge	2004	California State University Sacramento	67.7	288	792	4,301
The View	2003	University of Nebraska	77.0	156	588	1,666
University Court	2001	Michigan State University	94.0	138	516	2,178
University Crescent	1999	Louisiana State University	97.4	192	660	3,185
University Crossing(3)	1997	University of Kansas	98.1	229	700	2,685
University Crossings	1929/2003	Drexel University and University of Pennsylvania	99.9	260	1,026	6,146
University Edge(3)	2003	University of Southern Mississippi	97.6	156	552	2,863
University Estates	2001	Ball State University	91.8	144	552	1,672
University Gables	2001	Middle Tennessee State University	96.1	180	648	2,649
University Glades(3)	2000	University of Florida	99.1	120	432	2,188
University Greens	1999	University of Oklahoma	90.7	156	516	1,958
University Heights(3)	1999	University of Tennessee	96.7	204	636	2,865
University Lodge	2002	University of Wyoming	86.5	121	481	1,978
University Manor	2002	East Carolina University	92.5	168	600	2,701
University Meadows	2001	Central Michigan University	95.9	184	616	2,310
University Mills	2002	Northern Iowa University	99.6	121	481	1,903
University Oaks	2004	University of South Carolina	100.0	181	662	3,617
University Pines	2001	Georgia Southern University	97.1	144	552	2,664
University Place	2003	University of Virginia	92.0	144	528	2,153
University Pointe	2004	Texas Tech University	97.4	204	682	3,534
University Trails	2003	Texas Tech University	99.4	240	684	3,159
University Village	1979/2006	California State Sacramento	94.2	250	394	1,915
University Walk(3)	2002	University of North Carolina - Charlotte	99.6	120	480	2,618
Uptown(3)	2004	North Texas University	98.1	180	528	3,296
Willow Tree Apartments	1967-1968	University of Michigan	98.6	312	572	3,218
Willow Tree Towers	1974	University of Michigan	100.0	163	283	1,494
<b>Totals</b>				<b>14,432</b>	<b>46,696</b>	<b>\$ 188,885</b>

- (1) As of December 31, 2006.
- (2) For properties acquired during 2006, revenues consist of rent and other property income for the period from the date of our acquisition of the property through December 31, 2006.
- (3) As of June 1, 2007, we had completed a joint venture transaction with Fidelity Real Estate Group that will cover a total of six properties: Campus Edge Phases I and II, The Ridge, University Heights, University Uptown, and University Walk. Campus Edge Phase II had not been transferred into the joint venture as of the date of this prospectus, but is expected to be transferred by the end of the second quarter of 2007. For more information regarding this joint venture transaction, see the section of this prospectus titled *Management's Discussion and Analysis on Financial Condition and Results of Operations 2007 Business Strategy*. In addition, as of the date of this prospectus, we had an agreement covering the sale of five properties (University Glades, Campus Club, University Edge, Seminole Suites and University Crossing (Manhattan, KS), as well as an agreement of sale covering Campus Commons with a separate buyer). As of June 1, 2007, we completed the sale of Campus Club, University Glades and University Edge. We currently expect the remaining sales transactions to be completed by the end of the second quarter of 2007 or early in the third quarter of 2007, depending upon the timing of lender approval of certain loan assumptions relating to the properties.
- (4) Campus Connection (formerly referred to by us as Melrose Apartments Phase I) consists of a land parcel containing an existing student housing building that is contiguous to a 13.1 acre, undeveloped parcel of land. The undeveloped parcel of land is referred to as Campus Connection Phase II (formerly referred to by us as Melrose Apartments Phase II). When developed, Campus Connection Phase II is expected to contain 168 units and 534 beds.
- (5) Campus Ridge Apartments consists of a land parcel containing an existing student housing building that is contiguous to a 6.1-acre partially-developed parcel of land. This partially-developed parcel is referred to as Campus Ridge Apartments Phase II. When developed, Campus Ridge Apartments Phase II is expected to contain 72 units and 288 beds.
- (6) Consists of five contiguous land parcels, totaling approximately 26 acres. We currently plan to construct a 23-building student housing community that upon completion will contain 318 units and 894 beds.

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- (7) Orchard Trails consists of 144 units and 576 beds, and The Enclave Phase II consists of 144 units and 576 beds. Construction on both properties began in August 2005 and was completed in August 2006. We contributed land to the joint venture in exchange for a 10% interest and cash. We have an option to purchase our joint venture partner's interest in the joint venture within one year after completion of the student housing properties and we also provide certain guarantees on the outstanding loan amounts. Our ownership interest in this joint venture is accounted for as a financing arrangement, whereby we record the real estate as an asset, depreciate the property, and record a financing obligation. Accordingly, we are not presenting annual revenues for these properties.

In addition to the student housing properties that we owned as of March 31, 2007, as listed above, on January 26, 2007, we acquired a 50.1-acre land parcel located adjacent to The View, a currently-owned student housing property located in Lincoln, Nebraska and serving the University of Nebraska.

*Properties we have under contract.* As of June 1, 2007, we had agreements to purchase one additional student housing property containing a total of 72 units and 264 beds, and 13 undeveloped parcels of land for the development of one future student housing property. We also, as of June 1, 2007, had agreements to sell three student housing properties. These transactions are subject to certain conditions, and we provide no assurance that we will be successful in completing the transactions.

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*Properties we manage for others.* We manage each of the student properties we own. As of March 31, 2007, we also managed 18 student housing properties owned by others, containing a total of 3,053 units and 9,900 beds, including 51 units and 279 beds that are currently under construction. We manage these student housing properties owned by others through one of our taxable REIT subsidiaries. The following table presents information regarding the student housing properties that we managed for others as of March 31, 2007, and occupancy rates at, and revenues from, these properties as of the year ended December 31, 2006:

Property Name	Year Built	Primary University Served	Occupancy Rate(1)	Number of Units(1)	Number of Beds(1)
2040 Lofts	2006	University of Wisconsin at Milwaukee	55.7	% 132	377
Blanton Common Phase II(2)	2006	Valdosta State	81.4	72	264
Campus Connection	2000	University of North Carolina at Charlotte	91.1	158	576
Campus Pointe at EIU	2005	Eastern Illinois University	66.1	120	336
Campus Pointe at WKU	2005	Western Kentucky University	76.6	132	372
Magnolia Park(3)	2006	Georgia State University	79.7	136	444
Nittany Pointe	2000	Pennsylvania State University Altoona	97.8	156	624
Pegasus Landing	1999	University of Central Florida	96.7	744	2,532
Pegasus Pointe	1999	University of Central Florida	96.5	432	1,224
Presbyterian House(4)	N/A	University of Wisconsin	N/A	51	279
Scott Residence Hall & Conference Center	2000	University of Nebraska Omaha	100.0	50	168
Scott Village	2003	University of Nebraska Omaha	99.4	120	480
The Artists Residence(3)	2001	Massachusetts College of Art	100.0	90	310
The Village at West Chester	2004	West Chester University	99.6	131	524
University Courtyard	1999	Florida A&M University	80.0	96	384
University Hall at West Chester	2004	West Chester University	100.0	88	265
University Towers	1996	San Diego State University	99.7	290	570
Westminster - North and South	1923/1926-1927	University of California at Berkeley	93.6	55	171
<b>Total</b>				<b>3,053</b>	<b>9,900</b>

(1) As of December 31, 2006.

(2) We are currently under contract to acquire this property within 30 days after the earlier of (i) the date the property becomes 95% occupied, or (ii) August 1, 2007.

(3) As of the date of this prospectus, we had been given notice of termination of the management agreement by each of the respective owners of these properties. Both management agreements will be terminated on or prior to June 30, 2007.

(4) Presbyterian House consists of a student housing property that is currently under construction and, when completed, is expected to contain 51 units and 279 beds. The property is expected to be completed in August 2007. We are currently providing pre-leasing services with respect to this property.

*Our corporate headquarters and other leased space.* We own our corporate headquarters building, which is located in Newtown Square, Pennsylvania and consists of approximately 44,721 square feet of administrative offices. As of March 31, 2007, we leased approximately 7,682 square feet of our headquarters building to several entities affiliated with Gary M. Holloway, Sr. We believe that our current facilities are adequate for our present purposes.

### Legal Proceedings

Starting on April 5, 2006, five putative class actions alleging violations of Sections 11, 12(a)(2) and 15 of the Securities Act of 1933 and Sections 10(b) and 20 the Securities Exchange Act of 1934 and Rule 10b-5 of the Securities and Exchange Commission have been filed in the United States District Court for the Eastern District of Pennsylvania, naming as defendants GMH Communities Trust, Gary M. Holloway, Sr.,

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and Bradley W. Harris. The complaints purport to bring claims on behalf of a class of purchasers of GMH securities during various periods, the longest of which is the period between October 28, 2004 and March 10, 2006. By Orders filed January 22, 2007, the cases were consolidated, and lead plaintiffs and lead counsel were appointed. A consolidated complaint alleging violations of Sections 11 and 15 of the Securities Act of 1933 and Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 was filed on March 19, 2007 against the same defendants for a class period between May 5, 2005 and March 10, 2006 based upon the Company's restatement of certain financial results. In the January 22, 2007 Order, the Court ordered that the parties shall not file any dispositive motions before attending a settlement conference with the Magistrate Judge. On June 1, 2007, Motions to Dismiss were filed by the defendants and it is expected that the lead plaintiffs will file a motion in response within the next 45 days. Discovery is stayed pending the disposition of any motion to dismiss. The outcome of this litigation is uncertain, and while the Company believes that it has valid defenses to Plaintiff's claims and intends to defend the class action lawsuit vigorously, no assurance can be given as to the outcome of this litigation. An adverse outcome could have a material adverse effect on our financial condition and results of operations.

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On March 12, 2007, Stone Gate I LLC, Southview LLC, The Commons LLC, Seminole Ride LLC, LB&J Limited, Bruce Forbes, Lois Forbes and Jeff Forbes filed a complaint in the United States District Court for the Eastern District of Pennsylvania against GMH Communities Trust, GMH Communities, L.P., College Park Investments, LLC, Peach Grove Associates, LLC, Neff Avenue Associates, LLC, Gary M. Holloway, Sr., Bradley W. Harris and John DeRiggi. The complaint alleges violations of Sections 10(b), 18 and 20(a) of the Securities Exchange Act of 1934, Section 522(a) and 522(c) of the Virginia Securities Act and Sections 1-401 and 1-501 of the Pennsylvania Securities Act, as well as common law claims for fraud, fraud in the inducement, negligent misrepresentation and breach of contract. The claims arise from the Company's restatement of certain financial results upon which plaintiffs purportedly relied in selling properties to certain defendants. In connection with the acquisition of the properties, Company entities purchased four student housing properties in exchange for a combination of cash, assumption of debt and the issuance of 1,940,282 units of limited partnership interests in our operating partnership valued at a total of approximately \$76.8 million. The units of limited partnership interest were issued for a total value of approximately \$27.5 million or \$14.17 per unit of limited partnership interest. The defendants intend to file a response to this complaint in June 2007. On May 25, 2007, Stone Gate I, LLC and Southview LLC each filed a Memorandum of Lis Pendens in the Commonwealth of Virginia, Circuit Court of Rockingham County against the defendants (excluding the individual defendants, Messrs. Holloway, Harris and DeRiggi, who were not named in either Memorandum). Discovery is stayed pending the disposition of any motion to dismiss. The outcome of the litigation is uncertain, and while the Company believes that it has valid defenses to plaintiffs' claims, and intends to defend the lawsuit vigorously, no assurance can be given as to the outcome of this litigation. An adverse outcome could have a material adverse effect on our financial condition and results of operations.

The Company also is subject to routine litigation, claims and administrative proceedings arising in the ordinary course of business. Other than the matters described above, we are not involved in any other material litigation nor, to our knowledge, is any material litigation pending or threatened against us.

**MANAGEMENT, CORPORATE GOVERNANCE AND COMPENSATION****Our Trustees and Executive Officers**

Our business and affairs are managed under the direction of our Board of Trustees. Our Board of Trustees consists of nine members. We believe Messrs. Buchholz, Eastwood, Kessler, Nayden and Silfen meet the independence requirements of the New York Stock Exchange, or NYSE. Our board is responsible for determining independence. Our shareholders elect our trustees annually and our trustees serve and hold office until our next annual shareholder meeting and until their successors are duly elected and qualify except as otherwise described below. All executive officers are elected by the Board of Trustees to serve in their respective capacities until their successors are elected and qualify or until their earlier resignation or removal. The following table sets forth certain information regarding our executive officers and trustees:

<b>Name</b>	<b>Age</b>	<b>Title</b>
Gary M. Holloway, Sr.(1)	51	Chairman, President and Chief Executive Officer
Bruce F. Robinson(1)	51	President of Military Housing Business and Trustee
Frederick F. Buchholz	61	Trustee
RADM James W. Eastwood	61	Trustee
Michael D. Fascitelli(2)	50	Trustee
Steven J. Kessler	64	Trustee
Denis J. Nayden	52	Trustee
Dennis J. O Leary(1)	59	Trustee
Richard A. Silfen	44	Trustee
John DeRiggi	40	President of Student Housing Business and Chief Investment Officer
J. Patrick O Grady	46	Executive Vice President and Chief Financial Officer
Joseph M. Macchione	41	Executive Vice President, General Counsel and Secretary

(1) Gary M. Holloway, Sr. designated each of these individuals for nomination to our Board pursuant to his right to nominate up to three trustees under the terms of his employment agreement. Mr. O Leary served as our Interim Chief Financial Officer from March 31, 2006 through June 30, 2006, at which time he became an Executive Vice President and retained the position of principal financial officer. On August 15, 2006, Mr. O Leary ceased to be an employee of the Company.

(2) Vornado Realty L.P., the operating partnership of Vornado Realty Trust, has designated this individual pursuant to its right to designate for nomination to our Board a trustee under the terms of the warrant it received in connection with our formation transactions.

Messrs. Holloway and Robinson have served as trustees since the initial formation of GMH Communities Trust in May 2004. The other trustees have served as trustees since October 28, 2004, the date on which our common shares were first publicly traded on the New York Stock Exchange, except that Mr. Fascitelli was appointed to our Board of Trustees on August 10, 2005.

*Gary M. Holloway, Sr.* is our chairman, president and chief executive officer. Since 1985 and prior to our initial public offering, Mr. Holloway founded and operated GMH Associates, our predecessor entities and other affiliated entities, as a fully integrated and diverse real estate company with divisions specializing in the student and military housing industries, as well as the commercial real estate and investment services sectors. Under Mr. Holloway's direction, GMH Associates has acquired, built, managed and expanded residential and commercial properties throughout the U.S. since its inception. Prior to the formation of GMH Associates, Mr. Holloway was involved in various aspects of the real estate industry. He served as



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chief financial officer for the Holloway Corporation, a closely held business that specialized in residential and senior housing developments, and began his career with Touche Ross & Co., Certified Public Accountants, where he provided accounting and tax services to real estate clients.

*Bruce F. Robinson* is president of our military housing division, GMH Military Housing, a military housing company which provides development, management, and construction/renovation services for housing located on military bases throughout the United States. In addition, he manages our military joint venture and partner relationships. Prior to joining the military division, Mr. Robinson directed GMH Capital Partners, LP, an international corporate real estate company. During his tenure at the firm, which began in 1986, he has been a key participant in the formation and operation of all entity structures as well as financing issues, due diligence and global planning. Prior to joining GMH Associates, he was a senior tax manager for Touche Ross & Co., Certified Public Accountants, where he specialized in real estate syndication, partnerships and corporate acquisitions.

*Frederick F. Buchholz* worked with Lend Lease Real Estate investments or its predecessors from 1968 until retiring in June 1998. Since his retirement, Mr. Buchholz has served as an independent real estate consultant. He was appointed senior vice president of Equitable Real Estate in December 1990 and executive vice president in 1992. Prior to his retirement, Mr. Buchholz was the officer in charge of the Lend Lease Philadelphia region, supervising new business, asset management and restructuring/workout activities on behalf of a total mortgage and equity portfolio exceeding \$2.5 billion. At various times, Mr. Buchholz was also the officer in charge of Equitable Real Estate's New York and Washington, D.C. regional offices. Mr. Buchholz is a member of the Board of Trustees of Liberty Property Trust, and is a member of the Appraisal Institute and the Investment Review Committee of the Delaware Valley Real Estate Investment Fund, L.P.

*ADM James W. Eastwood (Ret)* is chairman of Granary Associates, a project management, architectural, interior design and real estate development firm, a position he has held since 1990. Admiral Eastwood became executive vice president of Granary Associates in 1983, served as president from 1990 through 2004, and led the company through extraordinary growth and expansion in the healthcare, public and corporate sectors. He retired from the Naval Reserves in November 2001 as a Two Star Admiral having completed his final tour as Deputy, Vice-Commander, Commander-in-Chief Atlantic Fleet. Admiral Eastwood also serves on the board of directors of First Penn Bank. Admiral Eastwood is an NROTC graduate of Villanova University with a Bachelor of Engineering degree.

*Michael D. Fascitelli* has been president of Vornado Realty Trust since December 1996. Vornado Realty Trust is a NYSE-listed real estate investment trust that currently owns and manages approximately 87 million square feet of commercial real estate in the U.S. Mr. Fascitelli also currently serves as the president of Alexander's Inc. Prior to his employment with Vornado Realty Trust, Mr. Fascitelli was a partner at Goldman, Sachs & Co., where he was head of the firm's real estate investment banking business. Mr. Fascitelli currently serves on the boards of Vornado Realty Trust, Alexander's Inc., and Toys 'R Us, Inc. Mr. Fascitelli received a Bachelor of Science in industrial engineering from the University of Rhode Island in 1978 and his MBA from the Harvard Graduate School of Business Administration in 1982.

*Steven J. Kessler* has been an executive vice president and the chief financial officer of Resource America, Inc., an asset management company that specializes in real estate, financial fund management and commercial finance since 2005, and served as senior vice president from 1997 to the present. From March 2005 to September 2005, he served as chief financial officer, and since September 2005 he has served as senior vice president, of Resource Capital Corp., a NYSE-listed specialty finance REIT that is externally managed by an indirect, wholly-owned subsidiary of Resource America, Inc. In addition, from 2002 to 2004, Mr. Kessler served as the chief financial officer of Atlas Pipeline Partners, L.P., a NYSE-listed master limited partnership. Prior to that, Mr. Kessler was vice president-finance and acquisitions at Kravco Company from March 1994 until 1997. From 1983 through March 1994, Mr. Kessler was chief financial officer and chief operating officer at Strouse Greenberg & Co., Inc., a regional full service real estate company, and vice president-finance and chief accounting officer at its successor, The Rubin Organization. Prior

thereto, Mr. Kessler was a partner at Touche Ross & Co., Certified Public Accountants. Mr. Kessler received a Bachelor of Science degree in accounting from Temple University in 1965 and became a certified public accountant in 1967.

*Denis J. Nayden* was a senior vice president of General Electric Company and is the former chairman and chief executive officer of GE Capital Corporation. Mr. Nayden joined GE Capital as marketing administrator for Air/Rail Financing in 1977, and in 1986 joined the Corporate Finance Group as vice president and general manager. In 1987, he was appointed senior vice president and general manager of the Structured Finance Group, and executive vice president of GE Capital in 1989. Mr. Nayden was named president and chief operating officer of GE Capital in 1994, and chairman and chief executive officer of GE Capital in June 2000. Currently, Mr. Nayden serves as Senior Advisor and Managing Partner of the Oak Hill Partners, L.P., a private investment group. He also is a Member of Alix Partners Holdings/Questor Partners Holdings Advisory Board, and serves on the boards of Accretive Healthcare Services, Inc., DuaneReade, Inc. and Gecis

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Global Holdings. Mr. Nayden received his Bachelor of Arts in English and his MBA in Finance from the University of Connecticut in 1976 and 1977, respectively.

*Dennis J. O Leary* served as our interim Chief Financial Officer from March 31, 2006 through June 30, 2006. Effective as of July 1, 2006, Mr. O Leary's position with the Company became Executive Vice President and Principal Financial Officer. Mr. O Leary ceased to be an employee of the Company on August 15, 2006 after the filing of the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2006. Mr. O Leary has been an independent consultant and a private investor since January 2004, working as a consultant to GMH Communities Trust and its predecessor entities on financial, structuring and compensation matters since March 2004. He was a partner with Ernst & Young LLP during 2002 and 2003, heading up the firm's New York Region Insurance Tax Practice. From 1985 to 2001, Mr. O Leary was a senior vice president with Reliance Group Holdings, Inc. where he was responsible for worldwide tax planning. Prior to that time, he was a partner with Touche Ross & Co, Certified Public Accountants. Mr. O Leary received his Bachelor of Arts in Economics from LaSalle University in 1970 and an MBA in Accounting and Finance from Temple University in 1973. He became a certified public accountant in 1974.

*Richard A. Silfen* has been a partner of the law firm of Duane Morris LLP, based in its Philadelphia, PA office, since January 2007. Prior to that time, he served as president and chief financial officer of Cangen Biotechnologies, Inc., a biotechnology company developing molecular diagnostic tests for the early detection of cancer and other technologies designed to enhance the selection of cancer therapeutic regimes, from September 2004 through July 2006. From May 2000 until August 2004, Mr. Silfen was a partner of the law firm of Morgan, Lewis & Bockius LLP. Mr. Silfen has extensive experience counseling real estate investment trusts and other publicly traded companies in connection with capital raising transactions and other securities matters, as well as mergers and acquisitions and other business and financial matters. He is also a member of the National Association of Real Estate Investment Trusts. Prior to May 2000, Mr. Silfen was a partner of the law firm of Wolf, Block, Schorr and Solis-Cohen LLP and was vice chairman of its corporate department. From 1987 through 1990, Mr. Silfen worked in the Securities and Exchange Commission's Division of Corporation Finance. Mr. Silfen received his Bachelor of Arts in Physics from Baylor University in 1983 and his J.D. from the University of Alabama in 1987.

*John DeRiggi* is president of our student housing business and chief investment officer. Mr. DeRiggi was promoted to the position of president of our student housing business on July 1, 2006, from his prior position as Executive Vice President. As president of our student housing business, Mr. DeRiggi is responsible for the oversight of all aspects of the student housing division, including management and operations. As chief investment officer, Mr. DeRiggi is responsible for capital markets activities for GMH Communities Trust, including asset level financing. In his prior position as Executive Vice President, Mr. DeRiggi was responsible for acquisition of student housing assets, and development of new student housing properties. Previously, Mr. DeRiggi was senior vice president of GMH Capital Partners, LP, with direct oversight of the Corporate Services Group, the Investment Services Group, and portfolio/data administration. Previously, Mr. DeRiggi was a member of GMH Associates' Investment Acquisition Group, where he was responsible for structuring the acquisition of residential and commercial properties for the Company's investment accounts. Prior to joining GMH Associates in 1997, Mr. DeRiggi was an investment property specialist with the Tampa, Florida office of the Grubb & Ellis Company. He holds a Bachelor of Science degree in Business from the State University of New York and an MBA with distinction from Hofstra University.

*J. Patrick O Grady* is our executive vice president and chief financial officer. Mr. O Grady oversees the Company's accounting and financial reporting activities, including its student housing and military housing divisions. Prior to joining the Company, Mr. O Grady served as an Assurance Partner with KPMG LLP from May 2002 and previously as a partner with Arthur Andersen LLP from September 1997-May 2002. Mr. O Grady has served many entrepreneurial companies primarily in the real estate and healthcare industries and has been involved with three REIT IPOs and has served many REITs, developers, brokers and property managers during his career. He has participated in transactions raising over \$3 billion of debt and equity financing. Mr. O Grady is a member of the AICPA, PICPA and

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NAREIT and is a licensed certified public accountant in Pennsylvania and Florida. Mr. O Grady holds a Bachelor of Science degree in accounting from LaSalle University where he graduated *magna cum laude*.

*Joseph M. Macchione* is our executive vice president, general counsel and secretary. Mr. Macchione oversees all legal matters for GMH Communities Trust, including its student housing and military housing divisions. Before joining GMH Associates in February 2001, Mr. Macchione practiced at the law firm of Morgan, Lewis & Bockius LLP from March 1998 to February 2001, and prior to that time at the law firm of Ballard, Spahr, Andrews & Ingersoll LLP, where his legal practice focused on commercial real estate, construction, environmental and telecommunications law matters. Mr. Macchione is an Executive Committee Member of the Real Property Section of the Philadelphia Bar Association, and is

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licensed to practice law in Pennsylvania and New Jersey. Mr. Macchione received his J.D., *cum laude*, from Temple University School of Law, and his undergraduate degree, *summa cum laude*, from Temple University.

#### **Audit Committee and Audit Committee Financial Expert**

The Company's Audit Committee is comprised of three independent trustees, Messrs. Eastwood, Kessler and Silfen. The Audit Committee has been established as a separately-designated standing committee of the Company's Board of Trustees in accordance with section 3(a)(58)(A) of the Securities Exchange Act of 1934, as amended. Each of the members of the Audit Committee meets the financial literacy requirements of the NYSE and is independent as defined under the Company's Corporate Governance Guidelines and consistent with the listing standards of the NYSE. The Board has affirmatively determined that Mr. Kessler, who serves as the chairperson of the Audit Committee, is an audit committee financial expert as defined under applicable SEC regulations. In accordance with the terms of the Audit Committee formal charter, the Audit Committee oversees, reviews and evaluates:

- our financial statements;
- our accounting and financial reporting processes;
- the integrity and audits of our financial statements;
- our disclosure controls and procedures;
- our internal control functions;
- our compliance with legal and regulatory requirements;
- the qualifications and independence of our independent auditors; and
- the performance of our internal and independent auditors.

The Audit Committee also:

- has sole authority to appoint, compensate, oversee, retain or replace our independent auditors;
- has sole authority to approve in advance all audit and permissible non-audit services, if any, by our independent auditors and the fees to be paid in connection therewith;
- is responsible for establishing and maintaining whistleblower procedures;
- conducts an annual self-evaluation;
- prepares an Audit Committee report for publication in our annual proxy statement;
- monitors compliance of our employees with our standards of business conduct and conflict of interest policies; and
- meets at least quarterly with our senior executive officers, internal audit staff and our independent auditors in separate executive sessions.

#### **Section 16(a) Beneficial Ownership Reporting Compliance**

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's executive officers and trustees and persons who own more than 10% of the Company's common shares to file reports of ownership and changes in ownership of the Company's common shares and any other

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equity securities with the SEC and the NYSE. Executive officers, trustees and greater than 10% shareholders are required by SEC regulations to furnish the Company with copies of all Section 16(a) forms they file.

Based solely on its review of the copies of Forms 3, 4 and 5 furnished to the Company during or with respect to 2006, or written representations from certain reporting persons that no such forms were required to be filed by such persons, we believe that all of the Company's executive officers, trustees and greater than 10% shareholders complied during 2006 with all filing requirements applicable to them.

### **Code of Ethics**

*Code of Business Conduct and Ethics.* The Company has adopted a Code of Business Conduct and Ethics in accordance with the corporate governance rules of the NYSE. The code contains a policy that prohibits conflicts of interest between the Company's officers, employees and trustees on the one hand, and the Company on the other hand, except where our Audit Committee approves of the transaction involving the potential conflict. The Company's conflicts of interest policy states that a conflict of interest exists when a person's private interest is not aligned or appears not to be aligned, or interferes or appears to interfere, in any way, with the Company's interest. For example, the Company's conflicts of interest policy prohibits its officers, employees and trustees from entering into agreements, transactions or business relationships, or otherwise taking actions, that involve conflicts of interest, other than such agreements, transactions or business relationships

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or other actions that are (i) otherwise contemplated in the prospectus relating to the Company's initial public offering, or (ii) approved in advance by the Company's Audit Committee. Except as otherwise permitted as described in the foregoing sentence, the Company is prohibited from, among other things, engaging in the following activities:

- acquiring any assets or other property from, or selling any assets or other property to, any of the Company's trustees, officers or employees, any of their immediate family members or any entity in which any of the Company's trustees, officers or employees or any of their immediate family members has an interest of 5% or more;
- making any loan to, or borrowing from, any of the Company's trustees, officers or employees, any of their immediate family members or any entity in which any of the Company's trustees, officers or employees or any of their immediate family members has an interest of 5% or more;
- engaging in any other transaction with any of the Company's trustees, officers or employees, any of their immediate family members or any entity in which any of the Company's trustees, officers or employees or their immediate family members has an interest of 5% or more; or
- permitting any of the Company's trustees or officers to make recommendations regarding or to approve compensation decisions that will personally benefit such trustees or officers or their immediate family members whom the Company employs, other than customary compensation for service on the Company's Board of Trustees and its committees.

A copy of this code may be viewed on the Corporate Governance section of the Investor Relations page on the Company's website at [www.gmhcommunities.com](http://www.gmhcommunities.com).

*Code of Ethics for Chief Executive Officer and Senior Financial Employees.* The Company has adopted a Code of Ethics for Chief Executive Officer and Senior Financial Employees that applies to the Company's principal executive officer, principal financial officer, principal accounting officer or controller and persons performing similar functions. A copy of this code may be viewed on the Corporate Governance section of the Investor Relations page on the Company's web site at [www.gmhcommunities.com](http://www.gmhcommunities.com). To the extent permitted by the corporate governance rules of the NYSE, the Company intends to satisfy the disclosure requirement under Item 5.05 of Form 8-K regarding the amendment to, or waiver of, a provision of the code by posting such information under the Corporate Governance section of the Investor Relations page on the Company's website at [www.gmhcommunities.com](http://www.gmhcommunities.com).

## EXECUTIVE COMPENSATION

### *Compensation Discussion and Analysis*

#### *Overview of Compensation Program*

The Compensation Committee (for purposes of this analysis, the Committee) of the Board has been appointed to discharge the Board's responsibilities relating to the compensation of the Company's executive officers. The Committee has the overall responsibility for approving and evaluating the Company's executive officer compensation plans, policies and programs. The Committee's primary objectives include serving as an independent and objective party to review these compensation plans, policies and programs.

Throughout this discussion, the individuals who served as the Company's chief executive officer and chief financial officer during fiscal 2006, as well as the other individuals included in the Summary Compensation Table presented below, are sometimes referred to in this discussion as the named executive officers.

#### *Compensation Philosophy and Objectives*

The Compensation Committee believes that a well-designed compensation program should align the goals of the shareholders with the goals of the chief executive officer, and that a significant part of the executive's compensation, over the long term, should be dependent upon the value

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created for shareholders. In addition, all executives should be held accountable through their compensation for the Company's performance, and compensation levels should also reflect the executive's individual performance during the period in an effort to encourage increased individual contributions to the Company's performance. The compensation philosophy, as reflected in the Company's employment agreements with its executives, is designed to motivate executives to focus on operating results and create long-term shareholder value by:

- establishing a plan that attracts, retains and motivates executives through compensation that is competitive with a peer group of other publicly-traded real estate investment trusts, or REITs;

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- linking a portion of executives' compensation to the achievement of the Trust's business plan by using measurements of the Trust's operating results and shareholder return; and
- building a pay-for-performance system that encourages and rewards successful initiatives within a team environment.

The Compensation Committee believes that each of the above factors is important when determining compensation levels. Initially, the Committee reviews and approves annually the chief executive officer's proposed corporate and individual performance goals and objectives relevant to executive officers and subsequently evaluates performance of the executive officers in light of those goals and objectives. The Committee considers the Company's performance, relative shareholder return, the total compensation provided to comparable officers at similarly-situated companies, and compensation given to executive officers in prior years. To that end, the Committee believes executive compensation packages provided by the Company to its executive officers should include both base salaries and annual bonus awards that reward corporate and individual performance, as well as incentivize those executives to meet or exceed established goals.

#### *Role of Executive Officers in Compensation Decisions*

The Committee makes all final compensation decisions for the Company's executive officers. The chief executive officer annually reviews the performance of the executive officers other than himself (his performance is reviewed solely by the Committee), and then presents his conclusions and recommendations to the Committee with respect to base salary adjustments and annual cash bonus award amounts. The Committee then has the ability to exercise its own discretion in modifying any recommended adjustments or awards to the executives (subject where relevant to applicable terms under employment agreement), but does consider the recommendations from the chief executive officer, as well as any self-evaluations prepared by executive officers in light of any individual performance goals that have been pre-approved by the Committee.

#### *Role of Equity-Based Compensation in Compensation Analysis*

Historically, the Committee has approved only annual base salary adjustments and cash bonus awards for executive officers, and has not established any program pursuant to which executive officers receive equity-based awards under the Company's Equity Incentive Plan. To date, the only named executive officer to whom equity-based compensation has been awarded is Mr. O'Grady, the Company's current chief financial officer. The grant to Mr. O'Grady was part of his initial employment package under an employment agreement that became effective on July 1, 2006. The grant to Mr. O'Grady consisted of 40,000 restricted common shares as called for by the employment agreement, which shares will vest over a three-year period (10,000 shares upon the first anniversary of employment, and 15,000 shares for each of the second and third anniversaries of employment).

No other equity-based awards have been granted to executive officers or other Company employees since inception of the Company's Equity Incentive Plan. The Committee has, however, discussed its intention to implement a formal equity-based compensation program for executive officers and other Company employees by the end of 2007. The Committee views any such equity-based program as a form of long-term compensation, and currently expects to structure the program to include the grant of restricted common shares with vesting restrictions over one or more years of employment. The Committee also currently plans to work with an independent compensation consultant in structuring the terms of any such equity-based compensation program, and to review the terms of similar programs utilized by other peer group companies. The Committee believes that the grant of equity-based compensation that includes a vesting period over several years of employment will promote the Company's goal of retaining key employees, and align the key employee's interests with those of the Company's shareholders from a long-term perspective.

#### *Role of Employment Agreements in Determining Executive Compensation*

Each of the Company's currently employed executive officers is a party to an employment agreement. At the time of the Company's initial public offering in October 2004, the Company executed employment agreements with three of its then top executive officers: the chief executive officer and the presidents of the Company's student housing and military housing divisions. Then, in July 2006, in light of recommendations received from independent counsel engaged by the Company's Audit Committee to conduct a special investigation relating to accounting and auditing matters, the Company executed employment agreements with the Company's new chief financial officer, J. Patrick O'Grady, as well as with the Company's new president of the student housing division, John DeRiggi, and the Company's general counsel, Joseph M. Macchione. More specifically, the recommendations from the Audit Committee's independent counsel provided that the Committee should consider entering into an employment agreement with its new chief financial officer, which agreement would include severance provisions, and would reduce, compared to the Company's past employment agreements with other executive



officers, the percentage of overall compensation linked to overall Company performance. These measures were recommended for consideration by the Committee in an effort to ensure the chief financial officer's independence, in light of the Company's tone-at-the-top material weakness identified as part of the Company's evaluation of internal control over financial reporting as of December 31, 2005. Upon consideration of these recommendations, the Committee determined that it was appropriate to enter into such an employment agreement with Mr. O Grady.

In addition, the Committee concluded that the same considerations of promoting Mr. O Grady's independence were applicable to the Company's other executive officers, and therefore the Committee simultaneously approved of the execution of employment agreements with the Company's other executive officers who had no such agreement at that time. Based on the foregoing objectives, the Committee has structured the compensation terms under these other employment agreements to motivate executives to achieve the business objectives set by the Company and reward the executives for achieving such objectives, as well as to promote the Company's goal of retaining key employees.

#### *Annual Base Salaries*

Base salaries are paid for ongoing performance throughout the year. In order to compete for and retain talented executives who are critical to the Company's long-term success, the Committee has determined that the base salaries of executive officers should be generally in line with the average of those of executives of other equity REITs that compete with the Company for employees, investors and business, while also taking into account the executive officer's individual performance and tenure and the Company's performance relative to its peer companies within the REIT sector.

Each of the Company's employment agreements is subject to an initial three-year term and provides for the following initial annual base salaries: Gary M. Holloway, Sr., \$350,000; Bruce F. Robinson, \$325,000; John DeRiggi, \$300,000; J. Patrick O Grady, \$300,000; and Joseph M. Macchione, \$250,000. The initial base salaries included in the Company's employment agreements for Messrs. Holloway and Robinson were reviewed and recommended by The Schonbraun McCann Group LLC, an independent consulting firm engaged prior to completion of the Company's initial public offering in November 2004. The initial base salaries included in the Company's employment agreements for Messrs. O Grady, DeRiggi and Macchione were evaluated by the Committee on the basis of a peer group report compiled by the Committee's compensation consultant, which provided an analysis of salary and bonus amounts paid to similarly-situated employees at several comparably-sized companies. Prior to the date of effectiveness of the employment agreements for Messrs. DeRiggi and Macchione on July 1, 2006, their annual base salaries for 2006 (\$275,000 and \$250,000, respectively) had been similarly evaluated by the Committee in conjunction with its review of the independent compensation consultant's peer group report. The Committee's compensation consultant included the following companies as part of the Company's peer group for purposes of comparing compensation of executives: American Campus Communities, American Financial Realty Trust, Brandywine Realty Trust, Education Realty Trust, Pennsylvania Real Estate Investment Trust, and Liberty Property Trust. In evaluating the compensation provided within this peer group, the Committee considers differences between the relevant peer group company and the Company, such as location, market presence, size, type of real estate holdings, market capitalization, and other pertinent factors. The Committee, together with its compensation consultant, will periodically review and update the Company's list of peer group companies to ensure that it is comprised of those companies that compete for similar talent and investors.

Under the terms of the executive officers' employment agreements, the base salaries are to be increased annually effective January 1 of each year during the term of the employment agreement, and such increases will be a minimum positive amount equal at least to the percentage increase in the Consumer Price Index. During the first quarter of 2006, the Committee determined that it would seek to enter into employment agreements with Messrs. DeRiggi and Macchione (as well as with Mr. O Grady, who had been offered the position of chief financial officer but not yet accepted employment), but that in the meantime it was appropriate to set the annual adjustments of the 2006 base salaries for Messrs. DeRiggi and Macchione. The Committee also agreed that it was appropriate to adjust the 2006 base salaries to amounts similar to the base salaries that were to be offered under the employment agreements with these executive officers. As referenced above, the Committee used a peer group compensation report provided by its compensation consultant in evaluating the initial base salaries to be offered to these executives under their employment agreements, and sought to ensure that the base salaries would be near the average of the base salaries received by similarly-situated employees at the peer group companies. Accordingly, during the first quarter of 2006, the Committee approved of a 2006 annual base salary for Mr. Macchione of \$250,000, and for Mr. DeRiggi of \$275,000, each of which was made retroactive to January 1, 2006. At the time that the Committee approved of this 2006 annual base salary for Mr. DeRiggi (which was the initial base salary to be offered under his employment agreement), Mr. DeRiggi had not yet been appointed to the position of president of the student housing business. Once Mr. DeRiggi was appointed to the position of president of the student housing business, in addition to his current role as chief investment officer, the Committee determined that it was appropriate to increase the initial base salary under his employment agreement to \$300,000. The base salary under Mr. DeRiggi's employment agreement did not become effective until July 1, 2006.

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Upon the termination of Bradley W. Harris, the Company's former chief financial officer, on March 31, 2006, the Board appointed Dennis J. O'Leary, a non-employee trustee of the Board, as the interim chief financial officer of the Company, to serve until a formal replacement for the position could be located. In approving the salary to be provided to Mr. O'Leary during his employment by the Company, the Committee considered that Mr. O'Leary was accepting the position under a set of extremely volatile circumstances, including (i) the pending outcome of the special investigation being conducted by the Audit Committee, (ii) anticipated restatements to the Company's previously filed financial results, (iii) threats of class action shareholder litigation, and (iv) the need to work with the Company's independent auditors and the Company's forensic accountants to complete additional procedures necessary to complete the Company's audit for the fiscal year 2005. Mr. O'Leary served as the Company's interim chief financial officer from April 1, 2006 through June 30, 2006, and then as executive vice president and principal accounting officer from July 1, 2006 through August 15, 2006.

### *Annual Incentive Bonus Awards*

In addition to the provisions for base salaries under the terms of our employment agreements, each executive is entitled to receive an annual cash bonus for each calendar year during the term of the agreement, based on the achievement of individual and corporate performance goals set by the Committee. The Committee establishes achievement thresholds for the bonuses to be paid with respect to the achievement of these goals, as follows: (a) for Mr. Holloway, threshold, target, superior and outperformance levels equal to 40%, 80%, 120%, and 200%, respectively, of his base salary; (b) for Mr. Robinson, threshold, target, superior and outperformance levels equal to 40%, 80%, 120%, and 175%, respectively, of his base salary; and (c) for Messrs. DeRiggi, O'Grady and Macchione, threshold, target and superior levels equal to 40%, 80% and 120%, respectively, of their respective base salaries. Under the terms of Mr. O'Grady's employment agreement, which became effective on July 1, 2006, he was guaranteed a cash bonus for the calendar year 2006 equal to no less than \$120,000, of which \$100,000 was required to be paid and was paid, within five business days after the effective date of his employment agreement.

Under the terms of the employment agreements, the Board or the Committee is required to meet during the first 90 days of each calendar year (120 days solely with respect to the 2006 calendar year for Messrs. DeRiggi, O'Grady and Macchione) to determine the relevant individual and corporate performance goals for each executive officer for the then-current year. At the end of that year, an assessment of individual and corporate performance against these goals is used to determine the cash incentive bonuses to be awarded in accordance with the following formula set forth under the employment agreements:

**total annual incentive bonus = individual performance bonus + corporate performance bonus**

where:

individual performance bonus = individual performance level achieved (threshold, target, superior or outperformance percentage, as applicable) x individual goals allocation x base salary

corporate performance bonus = corporate performance level achieved (threshold, target, superior or outperformance percentage, as applicable) x corporate goals allocation percentage x base salary

With respect to the allocation of individual and corporate goals, the applicable percentages under the employment agreements are 20% and 80%, respectively, for Messrs. Holloway, Robinson and DeRiggi, and 40% and 60%, respectively, for Messrs. O Grady and Macchione. In setting individual performance goals, the Committee obtains a list of such goals from each of the executive officers, which generally include personal objectives of the individual for the coming year that relate to their management, and the general performance, of their respective department (or the Company as a whole, as it relates to the chief executive officer). With respect to corporate goals, management as a whole submits its recommendations to the Committee as to various Company performance objectives for the coming year, which generally are divided into goals for each of the student housing and military housing segments, as well as the Company's overall performance on the basis of funds from operations, or FFO. These corporate performance goals are further broken down into threshold, target, superior or (where applicable) outperformance levels. Historically, the corporate performance goals relating to student housing have been based on the dollar value of student housing acquisitions completed during a fiscal year, and goals covering military housing have been based on the number of military housing end-state housing units awarded under military housing privatization projects during a fiscal year. With respect to FFO, the Committee historically has reviewed analyst consensus for projected fiscal year FFO of the Company in setting the target level of performance. In addition to these purely quantitative factors, the Committee also performs a qualitative analysis with respect to the Company's and each business segment's performance for the fiscal year. The Committee reviews the recommendations submitted by management for both individual and corporate performance goals, and uses its discretion in making appropriate adjustments to the recommendations before finally approving them.

In light of the events surrounding the special investigation performed by the Audit Committee of the Board, which commenced in the first quarter of 2006 and did not end until the third quarter of 2006, the Committee did not set individual

and corporate performance goals for the executive officers during the respective timeframes called for by the employment agreements in 2006. Accordingly, the 2006 cash bonus awards for executive officers, as approved by the Committee in March 2007, were not determined pursuant to the compensatory plan as specifically called for under the employment agreements. Rather, for purposes of determining cash bonus awards for 2006, the Committee calculated the awards by categorizing the 2006 individual performance of each executive officer into a threshold, target, superior or outperformance level (to the extent applicable under the executive's employment agreement), and then multiplying the percentage associated with such level under the executive's employment agreement by his then-current base salary. For example, if the Committee determined that an executive officer's individual performance during 2006 was at a superior level, then his base salary was multiplied by 120% in order to determine the total cash bonus award to be paid.

In terms of evaluating the appropriate performance levels to assign to each of the executive officers for 2006, the Committee considered recommendations from the chief executive officer, as well as its own assessment of the work that had been performed by the executives throughout the year. With respect to Mr. Holloway, the Committee concurred with his position that he not be considered for any bonus award for 2006 and, accordingly, did not award any bonus award to Mr. Holloway for 2006. With respect to Mr. O'Grady, who commenced employment as the Company's chief financial officer on July 1, 2006, his employment agreement provided that he was entitled to receive a minimum 2006 bonus award of \$120,000, of which \$100,000 was paid within five business days of his commencement of employment, as discussed above. The Committee awarded Mr. O'Grady an additional \$20,000 above this minimum bonus amount called for under the employment agreement, in recognition of Mr. O'Grady's contributions during the second half of 2006, including his management of the engagement of a replacement independent auditing firm for the Company and the timely filing of the Company's Quarterly Report on Form 10-Q for the third fiscal quarter of 2006, which was the first timely filed filing achieved by the Company during 2006 and was made especially challenging by the replacement of the independent auditors during the third quarter. The Committee also noted that Mr. O'Grady had been awarded 40,000 restricted common shares as part of his initial employment package under the terms of his employment agreement.

In evaluating 2006 individual performance for Messrs. DeRiggi and Macchione, the Committee considered the additional responsibilities that each had managed throughout the year. With respect to Mr. DeRiggi, the Committee noted his dual role as both chief investment officer and president of the student housing division (to which position he was appointed at mid-year). As to Mr. Macchione, the Committee noted his coordination of, and assistance with, a number of unexpected legal and operational matters, including the Audit Committee's special investigation, pending class action litigation and activities relating to the Special Committee of the Board. As to Mr. Robinson's 2006 performance, the Committee acknowledged that the Company's military housing division had performed in line with management's 2006 budget and successfully closed on the award of several military housing privatization projects slated for 2006. In recognition of the efforts exerted by Messrs. Robinson, DeRiggi and Macchione on these fronts, the Committee determined that each executive had performed at a superior level of individual performance, equating to a 120% multiplier in accordance with the methodology for determining 2006 bonus levels discussed above.

In addition to its determination of the executive's individual performance levels for 2006, the Committee also compared the executive's total compensation for 2006 to that of similarly-situated personnel under the Company's peer group analysis provided by the Committee's independent compensation consultant. The Committee noted that the 2006 total compensation to be awarded to these executives was within the average range of combined total compensation for similarly-situated positions under the applicable peer group analysis. The Committee also solicited feedback from non-management members of the Board prior to making its final determination of 2006 cash bonus awards, and considered, most notably with respect to Mr. DeRiggi, the importance of promoting the retention of employees holding key positions within the Company.

#### *Equity-Based Compensation*

The employment agreements also provide that the executives are eligible for grants of stock options and restricted common shares under the Company's Equity Incentive Plan, pursuant to the terms and conditions as determined by the Committee. With respect to restricted share grants, the employment agreements provide that the shares will have voting and dividend rights, and following the applicable restriction period as determined by the Committee, will be fully transferable to the executive. As stated above, the Committee has not granted any equity-based compensation to the Company's executive officers to date, other than the restricted common shares awarded to Mr. O'Grady as part of his initial employment package. The Committee does, however, expect to implement a formal equity-based compensation program for executive officers and other Company employees by the end of 2007.

#### *Perquisites and Other Personal Benefits*

The Company's employment agreements provide the executive officers with perquisites and other personal benefits that the Company and the Committee believe are reasonable and consistent with its overall compensation program to better enable the Company to attract and retain superior employees for key positions. The Committee periodically reviews the levels of perquisites and other personal benefits provided to the executive officers.



The executive officers are provided the following benefits under the terms of their employment agreements: an allotted number of paid vacation weeks; eligibility for the executive and his spouse and dependents in all Company sponsored employee benefits plans, including 401(k) plan, group health, accident, disability insurance, group life insurance and supplemental life insurance, on such terms no less favorable than applicable to any other executive; eligibility for participation in any Company sponsored deferred compensation plans (of which there are currently none that are utilized); an annual physical medical examination at the Company's cost; a monthly car allowance; reimbursement for costs associated with tax and financial planning assistance; coverage under a Company-paid director and officer insurance plan on terms no less favorable than coverage provided to any other then current officer or trustee; and, supplemental renewable long-term disability insurance, at the Company's cost, as agreed to by the Company and the executive. Attributed costs of the personal benefits described above for the named executive officers for the fiscal year ended December 31, 2006, are included in column (i) of the Summary Compensation Table provided below in this prospectus.

In addition, the executives' employment agreements each contain provisions relating to payments upon change in control events and severance upon termination for events other than without cause or good reason (as defined under the terms of the employment agreements). These change in control and severance terms are designed to promote stability and continuity of senior management. Information regarding applicable potential payments under these provisions for the named executive officers is provided under the heading Potential Payments Upon Termination or Change in Control presented below in this prospectus.

#### *Federal Tax Regulations*

Section 162(m) of the Code limits the deductibility on the Company's income tax return to compensation of \$1.0 million for certain executive officers unless, in general, the compensation is paid pursuant to a plan that is performance-based, nondiscretionary and has been approved by the Company's shareholders. The Compensation Committee's policy with respect to Section 162(m) since the Company's initial public offering is to make reasonable efforts to ensure that compensation is deductible to the extent permitted, while simultaneously providing the Company's executives with appropriate rewards for their performance.



**Summary Compensation Table**

The table below summarizes the total compensation paid or earned by each of the named executive officers for the year ended December 31, 2006. The Company has entered into employment agreements with each of its currently-employed named executive officers.

Name and Principal Position (a)	Year (b)	Salary (\$) (c)	Bonus (\$) (d)	Share Awards (\$) (e)(1)	Option Awards (\$) (f)	All Other Compensation (\$) (i)(2)	Total (\$) (j)
<b>Gary M. Holloway, Sr.</b> Chairman, President & Chief Executive Officer	2006	\$ 360,000	\$ 0	\$ 0	\$ 0	\$ 37,556	\$ 397,556
<b>J. Patrick O Grady</b> Executive Vice President & Chief Financial Officer (July 1, 2006 through December 31, 2006)	2006	\$ 150,000	\$ 140,000	\$ 88,733	\$ 0	\$ 9,812	\$ 388,545
<b>Dennis J. O Leary</b> Interim Chief Financial Officer (March 31, 2006 through June 30, 2006) EVP & Principal Accounting Officer (July 1, 2006 through August 15, 2006)	2006	\$ 288,000	\$ 0	\$ 1,376	\$ 0	\$ 0	\$ 289,376
<b>Bradley W. Harris</b> Former Chief Financial Officer (January 1, 2006 through March 31, 2006)	2006	\$ 60,000	\$ 0	\$ 0	\$ 0	\$ 349,615	\$ 409,615
<b>Bruce F. Robinson</b> President of Military Housing Business	2006	\$ 335,000	\$ 402,000	\$ 0	\$ 0	\$ 32,978	\$ 769,978
<b>John DeRiggi</b> President of Student Housing Business & Chief Investment Officer	2006	\$ 287,500	\$ 345,000	\$ 0	\$ 0	\$ 30,113	\$ 662,613
<b>Joseph M. Macchione</b> Executive Vice President, General Counsel & Secretary	2006	\$ 250,000	\$ 300,000	\$ 0	\$ 0	\$ 17,786	\$ 567,786

(1) The amounts in column (e) reflect the dollar amount recognized by the Company as an expense for financial statement reporting purposes for the fiscal year ended December 31, 2006, in accordance with FAS 123R, with respect to awards pursuant to the Company's Equity Incentive Plan. Mr. O Grady received 40,000 restricted shares on July 1, 2006, in accordance with the terms of his employment agreement that became effective as of that date. The restricted shares vest over a three-year period, with 10,000 vesting on July 1, 2007 and 15,000 shares vesting on each of July 1, 2008 and July 1, 2009. Mr. O Leary, who served as the Company's interim chief financial officer during a portion of

2006, receives grants of restricted shares for his service as a non-employee trustee on the Company's Board of Trustees. Additional information relating to the annual grant of restricted shares to the Company's non-employee trustees is provided in the table below titled "Trustee Compensation." The number of restricted shares granted to Mr. O'Leary for the fiscal year 2006 was pro-rated to exclude the period of time that he served as an employee of the Company. Both vested and unvested restricted shares receive dividend distributions made by the Company.

(2) Mr. Holloway's employment agreement provides that he will receive a monthly car allowance of \$1,500, and other benefits as are commensurate with his position, including reimbursement for the cost of tax preparation and financial planning services up to a maximum aggregate of \$10,000 annually, an annual medical examination and six weeks of paid vacation annually and various other customary benefits. Pursuant to Messrs. Robinson's and DeRiggi's employment agreements, each will receive a monthly car allowance of \$1,000 and other benefits as are commensurate with his position, including reimbursement for the cost of tax preparation and financial planning services up to a maximum aggregate of \$10,000 annually, an annual medical examination, five weeks of paid vacation annually and various other customary benefits. Pursuant to Messrs. O'Grady's and Macchione's employment agreements, each will receive a monthly car allowance of \$650 and other benefits as are commensurate with his position, including reimbursement for the cost of tax preparation and financial planning services up to a maximum aggregate of \$5,000 annually, an annual medical examination, five weeks of paid vacation annually and various other customary benefits. The employment agreements for Messrs. DeRiggi, O'Grady and Macchione became effective as of July 1, 2006. During 2006, the Company paid car allowances for Messrs. Holloway, Robinson, DeRiggi,

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O Grady and Macchione of \$18,000, \$12,000, \$9,900, \$3,900 and \$7,800 respectively; and paid tax planning services for each of Messrs. Holloway, Robinson, DeRiggi, O Grady and Macchione of \$10,000, \$10,000, \$9,900, \$2,500 and \$7,800, respectively. During 2006, the Trust made the following matches under the Company's 401(k) plan: \$1,328 (Mr. Holloway); \$2,750 (Mr. Robinson); \$2,485 (Mr. DeRiggi); \$669 (Mr. O Grady); and \$104 (Mr. Macchione); and paid medical benefits as follows: \$8,228 (Mr. Holloway); \$8,228 (Mr. Robinson); \$8,228 (Mr. DeRiggi); \$2,743 (Mr. O Grady); and \$2,082 (Mr. Macchione). The amount shown for Mr. O Leary includes \$21,946 of cash fees paid in connection with service as a non-employee trustee of the Company's Board of Trustees.

(3) Mr. Harris served as the Company's chief financial officer until his termination of employment effective March 31, 2006. On June 28, 2006, the Company entered into a Confidential Settlement Agreement and General Release with Mr. Harris, pursuant to which Mr. Harris received the right to the following payments: (i) payment of \$75,000, less applicable deductions and withholdings, representing an amount equal to four months of pay at employee's base salary as of the termination date, (ii) a payment of \$18,750, representing an amount equal to Mr. Harris' bonus attributable to the year ended December 31, 2005, (iii) a payment of \$1,250, representing payment toward outplacement service fees incurred by Mr. Harris, (iv) commencing on August 15, 2006, a sum of \$250,000, less applicable deductions and withholdings, to be paid in semi-monthly installments of \$9,375 in accordance with the company's normal payroll cycle, and (v) a payment of \$4,615 representing payment of his earned but unused vacation as of his termination date. In addition, the Company has made a payment to Mr. Harris' legal counsel in the gross amount of \$25,000.

The table below summarizes the grant of plan-based awards to our executive officers during the fiscal year ended December 31, 2006.

**Grants of Plan-Based Awards**

Name (a)	Grant Date (b)	All Other Share Awards: Number of Shares or Units (i)	All Other Option Awards: Number of Securities Underlying Options (j)	Grant Date Fair Value of Share and Option Awards (l)
<b>Gary M. Holloway, Sr.</b> Chairman, President & Chief Executive Officer				
<b>J. Patrick O Grady</b> Executive Vice President & Chief Financial Officer (July 1, 2006 through December 31, 2006)	July 1, 2006	40,000		\$ 532,400
<b>Dennis J. O Leary</b> Interim Chief Financial Officer (March 31, 2006 through June 30, 2006) EVP & Principal Accounting Officer (July 1, 2006 through August 15, 2006)	September 5, 2006	948		\$ 12,381
<b>Bradley W. Harris</b> Former CFO (January 1, 2006 through March 31, 2006)				
<b>Bruce F. Robinson</b> President of Military Housing Business				

**John DeRiggi**

President of Student Housing Business &  
Chief Investment Officer

**Joseph M. Macchione**

Executive Vice President, General Counsel &  
Secretary

The amounts in column (l) of the foregoing table reflect the grant date fair value calculated in accordance with FAS 123(R). During 2006, J. Patrick O Grady was the only individual to receive a plan-based award for service as an employee. The grant was made as of July 1, 2006 under the Company's Equity Incentive Plan, and approved as part of Mr. O Grady's compensation pursuant to his employment agreement, which also became effective as of July 1, 2006. Pursuant to the terms of his employment agreement, Mr. O Grady received a grant of 40,000 restricted common shares, of which 10,000 shares will vest on July 1, 2007 and 15,000 shares will vest on each of July 1, 2008 and July 1, 2009. On July 1, 2006, the fair market value of the Company's common shares, based on the closing price as reported by the New York Stock Exchange, was \$13.18 per share. Under the terms of the grant, Mr. O Grady will receive dividends on all 40,000 restricted shares while he remains employed with the Company. The Company has historically paid a dividend with respect to each of its fiscal quarters, at a rate that is determined at the discretion of its Board of Trustees. The restricted shares will continue to vest while Mr. O Grady remains employed with the Company, but will vest 100% immediately upon (i) a change of control of the Company, (ii) upon the employee's termination of employment by the Company without cause (as defined in the Equity Incentive Plan), and (iii) upon the employee's death or becoming permanently disabled (as defined in the Equity Incentive Plan). To the extent that Mr. O Grady is terminated from employment by the Company with cause, the unvested portion of the restricted shares will be forfeited immediately to the Company.

Mr. O Leary received a grant of 948 restricted shares on September 5, 2006 in connection with his service as a non-employee trustee of the Company's Board of Trustees. Additional information relating to the annual grant of restricted shares to the Company's non-employee trustees is provided in the table below titled Trustee Compensation. The number of restricted shares granted to Mr. O Leary for the fiscal year 2006 was pro-rated to exclude the period of time that he served as an employee of the Company. Under the terms of the restricted share grant, Mr. O Leary will receive dividends on all 948

restricted shares, and the shares will vest in equal annual installments over a three-year period (with the first installment vesting on June 30, 2007).

**Outstanding Equity Awards at Fiscal Year-Ended December 31, 2006**

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Name	Option Awards		Equity Incentive Plan Awards:			Share Awards		Equity Incentive Plan Awards:	
	Number of Securities Underlying Unexercised Options (#) Exercisable (b)	Number of Securities Underlying Unexercised Options (#) Unexercisable (c)	Number of Securities Underlying Unexercised Options (#) (d)	Option Exercise Price (\$) (e)	Option Expiration Date (f)	Number of Shares or Units That Have Not Vested (g)	Market Value of Shares or Units That Have Not Vested (\$)	Number of Shares, Units or Other Rights That Have Not Vested (i)	Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (\$)
<b>Gary M. Holloway, Sr.</b> Chairman, President & Chief Executive Officer									
<b>J. Patrick O Grady</b> Executive Vice President & CFO (July 1, 2006 through December 31, 2006)								40,000	(1) \$ 406,000 (1)
<b>Dennis J. O Leary</b> Interim Chief Financial Officer (March 31, 2006 through June 30, 2006) EVP & Principal Accounting Officer (July 1, 2006 through August 15, 2006)								3,095	(2) \$ 31,414 (2)
<b>Bradley W. Harris</b> Former CFO (January 1, 2006 through March 31, 2006)									
<b>Bruce F. Robinson</b> President of Military Housing Business									
<b>John DeRiggi</b> President of Student Housing Business & Chief Investment Officer									
<b>Joseph M. Macchione</b> Executive Vice President, General Counsel &									

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(1) Represents 40,000 restricted shares granted to Mr. O Grady under the Company's Equity Incentive Plan on July 1, 2006, pursuant to the terms of Mr. O Grady's employment agreement. The shares vest over a three-year period, with 15,000 vesting on July 1, 2007 and 10,000 vesting on each of July 1, 2008 and July 1, 2009. Under the terms of the grant, Mr. O Grady will receive dividends on all 40,000 restricted shares while he remains employed with the Company. The Company has historically paid a dividend with respect to each of its fiscal quarters, at a rate that is determined at the discretion of its Board of Trustees. The restricted shares will continue to vest while Mr. O Grady remains employed with the Company, but will vest 100% immediately upon (i) a change of control of the Company, (ii) upon the employee's termination of employment by the Company without cause (as defined in the Equity Incentive Plan), and (iii) upon the employee's death or becoming permanently disabled (as defined in the Equity Incentive Plan). To the extent that Mr. O Grady is terminated from employment by the Company with cause, the unvested portion of the restricted shares will be forfeited immediately to the Company. The market value of the unvested shares is based on the closing price of the Company's common shares on December 29, 2006 as reported on the New York Stock Exchange, which was \$10.15 per common share.

(2) Represents the unvested portion of restricted shares granted to Mr. O Leary in connection with his service as a non-employee trustee of the Company's Board of Trustees. Additional information relating to the annual grant of restricted shares to the Company's non-employee trustees is provided in the table below titled Trustee Compensation. The amount of restricted shares granted to Mr. O Leary for the fiscal year 2006 was pro-rated to exclude the period of time that he served as an employee of the Company. Under the terms of the restricted share grants, Mr. O Leary will receive dividends on unvested and vested shares, and the shares will vest in equal annual installments over a three-year period. The unvested restricted

shares as of December 31, 2006 will vest as follows: with respect to a grant made on January 1, 2005, 1,167 shares will vest on October 28, 2007; with respect to a grant made on March 31, 2005, 142 shares will vest on March 31, 2007 and 143 shares will vest on March 31, 2008; with respect to a grant made on June 30, 2005, 120 shares will vest on June 30, 2007 and 121 shares will vest on June 30, 2008; with respect to a grant made on September 30, 2005, 227 shares will vest on September 30, 2007 and 228 shares will vest on September 30, 2008; and with respect to a grant made on September 5, 2006, 316 shares will vest on each of June 30, 2007, June 30, 2008 and June 30, 2009. The market value of the unvested shares is based on the closing price of the Company's common shares on December 29, 2006 as reported on the New York Stock Exchange, which was \$10.15 per common share.

The table below summarizes the restricted share awards held by our executive officers that have vested as of December 31, 2006.

**Option Exercises and Shares Vested**

Name (a)	Option Awards		Share Awards	
	Number of Shares Acquired on Exercise (#) (b)	Value Realized on Exercise (\$) (c)	Number of Shares Acquired on Vesting (#) (d)	Value Realized on Vesting (\$) (e)
<b>Gary M. Holloway, Sr.</b> Chairman, President & Chief Executive Officer				
<b>J. Patrick O Grady</b> Executive Vice President & Chief Financial Officer (July 1, 2006 through December 31, 2006)				
<b>Dennis J. O Leary</b> Interim Chief Financial Officer (March 31, 2006 through June 30, 2006) EVP & Principal Accounting Officer (July 1, 2006 through August 15, 2006)			2,823	(1) \$ 39,710 (1)
<b>Bradley W. Harris</b> Former Chief Financial Officer (January 1, 2006 through March 31, 2006)				
<b>Bruce F. Robinson</b> President of Military Housing Business				
<b>John DeRiggi</b> President of Student Housing Business & Chief Investment Officer				
<b>Joseph M. Macchione</b> Executive Vice President, General Counsel & Secretary				

(1) Represents restricted shares pursuant to multiple grants in connection with Mr. O Leary's service as a non-employee trustee of the Company's Board of Trustees. Additional information relating to the annual grant of restricted shares to the Company's non-employee trustees is provided in the table below titled "Trustee Compensation." Under the terms of the restricted share grants, Mr. O Leary will receive dividends on unvested and vested shares, and the shares will vest in equal annual installments over a three-year period. The value of the vested shares realized is calculated based on the closing price of the Company's shares as reported on the New York Stock Exchange on the applicable vesting date for the shares, and specifically were as follows: with respect to a grant made on January 1, 2005, 1,167 shares vested on October 28, 2005 with a value of \$14.92 per share and 1,167 shares vested on



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October 28, 2006 with a value of \$13.88 per share; with respect to a grant made on March 31, 2005, 142 shares vested on March 31, 2006 with a value of \$11.64 per share; with respect to a grant made on June 30, 2005, 120 shares vested on June 30, 2006 with a value of \$13.18 per share; and with respect to a grant made on September 30, 2005, 227 shares vested on September 30, 2006 with a value of \$12.62 per share.

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### Potential Payments Upon Termination or Change in Control

Pursuant to the Company's employment agreements, Messrs. Holloway, Robinson, DeRiggi, O'Grady and Macchione, each of the executives is entitled to certain termination or change-in-control payments. The employment agreements provide that the executive officers agree to devote substantially all of their business time to the performance of their duties to us under their employment agreements (except as we otherwise agree). At the end of the initial three-year term, the employment agreements will automatically extend for two additional one-year periods (each, an Extension Term), unless either party terminates the agreement by providing prior written notice to the other party not later than 60 days prior to expiration thereof. These employment agreements permit us to terminate the executives' employment with appropriate notice for or without cause. Cause is generally defined to mean:

- conviction of, or the entry of a plea of guilty or nolo contendere to, a felony, excluding any felony relating to the negligent operation of a motor vehicle or a conviction, plea of guilty or nolo contendere arising under a statutory provision imposing per se criminal liability due to the position held by the executive with us, provided the act or omission of the executive or officer with respect to such matter was not taken or omitted to be taken in contravention of any applicable policy or directive of the Board of Trustees;
- a willful breach of the executive's duty of loyalty which is materially detrimental to us; and
- a willful failure to adhere to explicitly stated duties that are consistent with the executive's employment agreement, or the reasonable and customary guidelines of employment or reasonable and customary corporate governance guidelines or policies, including without limitation the business code of ethics adopted by our Board of Trustees, or the failure to follow the lawful directives of our Board of Trustees provided such directives are consistent with the terms of the executive's employment agreement, which continues for a period of 30 days after written notice to the executive.

In addition, each executive has the right under his employment agreement to resign for good reason upon certain events that occur without such executive's written consent, provided the executive notifies us of his determination that good reason exists within 60 days of when the executive knows of the occurrence of the event upon which his determination is based. For these purposes, good reason means (i) any material reduction in duties, responsibilities or reporting requirements, or the assignment of any duties, responsibilities or reporting requirements that are inconsistent with his positions with us; (ii) a reduction in his annual base salary; (iii) the termination or material reduction of certain employee benefit plans, programs or material fringe benefits other than in connection with modifications to plans that are applicable to all similarly situated officers; (iv) relocation of our offices outside of a 35-mile radius of Newtown Square, Pennsylvania; (v) a failure by us to renew his employment agreement on at least comparable terms at the close of the initial term or of either extension term; or (vi) our material breach of his employment agreement which continues for a period of 30 days after written notice. In addition, with respect to Mr. Holloway, such good reason also includes his removal from the board, other than for cause, or failure to be nominated or elected to the board, other than for cause, absent his prior written consent.

In the event of a termination of the executive's employment by the executive or by us (or our successor) for any reason other than cause following a change of control, the executive will become fully vested in his options and restricted shares and shall have a two-year period from his or her date of termination to exercise his or her vested options. In general terms, a change of control occurs:

- if a person, entity or affiliated group (with certain exceptions) acquires more than 50% of our then outstanding voting securities;
- if we merge into another entity, unless the holders of our voting shares immediately prior to the merger have at least 50% of the combined voting power of the securities in the merged entity or its parent;
- upon the liquidation, dissolution, sale or disposition of all or substantially all of our assets such that after that transaction the holders of our voting shares immediately prior to the transaction own less than 50% of the voting securities of the acquiror or its parent;
- if our board members are elected such that a majority of the board members have been members of the board for less than two years, unless the election or nomination for the election of each new board member who was not a board

member at the beginning of such two year period was approved by at least two-thirds of the board members then still in office who were board members at the beginning of such period; or

- if a majority of our board votes in favor of a resolution stating that a change of control has occurred.

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With respect to Messrs. Holloway and Robinson, if payments become due as a result of a change of control and the excise tax imposed by Section 4999 of the Code applies, the terms of their employment agreements require us to gross up the executives for the amount of this excise tax plus the amount of income and other taxes due as a result of the gross up payment.

Each executive has agreed with the Company that for a period after termination of his employment (18 months for Messrs. Holloway and Robinson, 24 months for Messrs. DeRiggi, O Grady and Macchione), such executive will not compete with the Company by working with or investing in, subject to certain limited exceptions noted below, any enterprise engaged in a business substantially similar to any primary segment of our business as conducted during the period of the executive's employment with the Company. The executive will not be subject to these restrictions if the Company commits a material breach of the executive's employment agreement. In addition, these restrictions will not preclude the executive from (i) making any investment in a public company or any entity in which he is the owner of 5% or less of the issued and outstanding voting securities, provided ownership does not result in his being obligated or required to devote a substantial amount of managerial efforts, (ii) engaging in charitable, academic or community activities, or in trade or professional organizations, or (iii) holding directorships in other companies consistent with our conflict of interest policies and corporate governance guidelines.

The employment agreements provide that, if the executive's employment ends due to termination by us without cause, or termination by the executive for good reason, we will be obligated to pay the following severance benefit: (i) a lump sum payment equal to (A) with respect to Mr. Holloway, three times base salary his average annual bonus determined at the superior level of both corporate and individual performance for the year in which the termination occurs, (B) with respect to Mr. Robinson, two times such amount if not in connection with a change of control and three times such amount if in connection with a change of control, and (C) with respect to Messrs. DeRiggi, O Grady and Macchione, two times such amount, (ii) a prorated amount of the incentive bonus at the superior level for individual and corporate performance for the year in which the termination occurs, and (iii) an amount equal to accrued but unpaid base salary through the date of termination plus any other compensation then due and owing. The Company will also permit the executive to continue to participate in, and will pay the premiums for, group health coverage for a period of three years following the executive's date of termination with respect to Messrs. Holloway and Robinson, and two years with respect to Messrs. DeRiggi, O Grady and Macchione. Additionally, all of the options and restricted shares granted to the executive will become fully vested, and the executive will have a period of at least two years from the effective date of termination in which to exercise all vested options. If, however, any executive resigns for good reason upon notice of non-renewal by the Company after the second Extension Term, the multiplier described in clause (i) above will be reduced to one times such amount. Assuming a triggering event for these severance benefits upon termination took place as of December 31, 2006, the following payments would have been due and payable to the executive officers:

Named Executive Officer With Employment Agreements	Estimated Aggregate Payment Upon Termination for Cause, or by Employee with Good Reason, as of December 31, 2006
<b>Gary M. Holloway, Sr.</b> Chairman, President & CEO	\$ 2,376,000
<b>J. Patrick O Grady</b> Executive Vice President & CFO (July 1, 2006 through December 31, 2006)	\$ 1,320,000
<b>Bruce F. Robinson</b> President of Military Housing Business	\$ 1,474,000
<b>John DeRiggi</b> President of Student Housing Business & Chief Investment Officer	\$ 1,265,000
<b>Joseph M. Macchione</b> Executive Vice President, General Counsel & Secretary	\$ 1,100,000

If an executive's employment ends due to death or permanent disability, the Company will pay to the executive, or his estate or beneficiary, an amount equal to one times the executive's base salary and the executive's annual incentive bonus (determined at the superior level for both corporate and individual performance for the year in which the termination of employment occurs) within 10 days of the occurrence of the relevant event. Further, the executive will become vested in all options and restricted shares and the executive or the executive's personal representative will have one year from the date of the event to exercise all vested options. The Company will pay to the executive or the executive's representative any base salary, annual bonus, expense reimbursement, and all other compensation related payments payable as of the date of the relevant event. In addition, the Company will pay to the executive or the executive's representative a prorated amount of the



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incentive bonus at the target level for corporate and individual performance for the year in which the relevant event occurred. Assuming a triggering event for these severance benefits upon termination took place as of December 31, 2006, the following payments would have been due and payable to the executive officers:

Named Executive Officer With Employment Agreements	Estimated Aggregate Payment Upon Termination as a result of Death or Permanent Disability, as of December 31, 2006
<b>Gary M. Holloway, Sr.</b> Chairman, President & CEO	\$ 792,000
<b>J. Patrick O Grady</b> Executive Vice President & CFO (July 1, 2006 through December 31, 2006)	\$ 660,000
<b>Bruce F. Robinson</b> President of Military Housing Business	\$ 737,000
<b>John DeRiggi</b> President of Student Housing Business & Chief Investment Officer	\$ 632,500
<b>Joseph M. Macchione</b> Executive Vice President, General Counsel & Secretary	\$ 550,000

In the event of a termination of the executive's employment by the executive or by us (or our successor) for any reason other than cause following a change of control as described above, the executive will become fully vested in his options and restricted shares and shall have a two-year period from his or her date of termination to exercise his or her vested options.

With respect to Messrs. Holloway and Robinson, if payments become due as a result of a change of control and the excise tax imposed by Section 4999 of the Code applies, the terms of their employment agreements will require us to gross up the executives for the amount of this excise tax plus the amount of income and other taxes due as a result of the gross up payment. Effective as of July 27, 2006, the Company entered into an amendment to its employment agreement with Bruce F. Robinson, President of the Military Housing division. Under the terms of the amendment, in the event of the occurrence of a change of control (as defined in the agreement), other than a change of control resulting from a transaction in which Gary M. Holloway, Sr. or Mr. Robinson is a majority owner or managing member of the Company (or any successor) following the transaction, then Mr. Robinson and the Company (or the buyer or acquirer in such change of control transaction) shall enter into good faith negotiations not later than 15 days following the closing of such transaction as to Mr. Robinson's position with, and role and compensation in the post-closing business. If the parties to such negotiation have not reached an agreement and have not executed an employment agreement with respect to Mr. Robinson's ongoing employment after the closing not later than 30 days following such closing, then Mr. Robinson shall have the right, not later than 15 days following the expiration of the 30-day period, to terminate employment with the Company and have such termination deemed to constitute good cause pursuant to the agreement; provided, however, that such election shall not be available in the event (i) that Mr. Robinson has become entitled to severance under any other provision of the employment agreement prior to his termination of employment, or (ii) of his death, permanent disability or the occurrence of any event that would give the Company valid reason to terminate for cause. Assuming a triggering event for these severance benefits upon termination took place as of December 31, 2006, the following payments would have been due and payable to the executive officers:

Named Executive Officer With Employment Agreements	Estimated Aggregate Payment Upon Termination For any reason other than Cause, as of December 31, 2006
<b>Gary M. Holloway, Sr.</b> Chairman, President & CEO	\$ 2,971,470
<b>J. Patrick O Grady</b> Executive Vice President & CFO (July 1, 2006 through December 31, 2006)	\$ 1,320,000
<b>Bruce F. Robinson</b> President of Military Housing Business	\$ 2,802,367
<b>John DeRiggi</b> President of Student Housing Business & Chief Investment Officer	\$ 1,265,000
<b>Joseph M. Macchione</b> Executive Vice President, General Counsel & Secretary	\$ 1,100,000

The following table presents total trustee compensation earned by non-employee members of our Board of Trustees during the fiscal year ended December 31, 2006.

#### Trustee Compensation

Name (a)	Fees Earned or Paid in Cash (\$)(b)(1)	Share Awards (\$)(c)(2)	All Other Compensation (\$)(g)	Total (\$)(h)
Frederick F. Buchholz	\$ 117,048	(1)\$ 25,170		\$ 142,218
RADM James W. Eastwood (Ret)	\$ 168,548	(1)\$ 25,170		\$ 193,718
Michael D. Fascitelli	\$ 29,500	(1)\$ 22,606		\$ 52,106
Steven J. Kessler	\$ 136,500	(1)\$ 25,170		\$ 161,670
Denis J. Nayden	\$ 34,000	(1)\$ 25,170		\$ 59,170
Richard A. Silfen	\$ 251,815	(1)\$ 25,170		\$ 276,985

(1) The aggregate cash amounts shown for each trustee include the following: Mr. Buchholz \$20,000 for annual retainer fee, \$13,000 for Board meeting attendance fees, and \$84,048 for Committee retainer and meeting attendance fees; Adm. Eastwood \$20,000 for annual retainer fee, \$13,000 for Board meeting attendance fees, and \$135,548 for Committee retainer, service and meeting attendance fees; Mr. Fascitelli \$20,000 for annual retainer fee and \$9,500 for Board meeting attendance fees; Mr. Kessler \$20,000 for annual retainer fee, \$13,500 for Board meeting attendance fees and \$103,000 for Committee retainer, service and meeting attendance fees; Mr. Nayden \$20,000 for annual retainer fee, \$12,500 for Board meeting attendance fees and \$1,500 for Committee retainer and meeting attendance fees; and Mr. Silfen \$20,000 for annual retainer fee, \$13,500 for Board meeting attendance fees and \$218,315 for Committee retainer, service and attendance fees. Dennis O Leary, who is also a non-employee trustee of the Company, is listed as a named executive officer in the Summary Compensation Table presented above, and therefore is not shown in this table.

(2) The amounts in column (c) reflect the dollar amount recognized by the Company as an expense for financial statement reporting purposes for the fiscal year ended December 31, 2006, in accordance with FAS 123R of awards

pursuant to the Company's Equity Incentive Plan. All trustees shown in the table received a grant of 1,518 restricted common shares on June 30, 2006 under the Company's Equity Incentive Plan. The grant date fair values of the awards, also computed in accordance with FAS 123(R), with respect to the 1,518 restricted shares granted to each of the trustees on June 30, 2006 was \$120,042. The restricted shares all vest in three equal installments over a three-year period. Additional information relating to the annual grant of restricted shares to the Company's non-employee trustees is provided in the narrative disclosure below this table. Both vested and un-vested restricted shares receive dividend distributions made by the Company. As of the year ended December 31, 2006, each of the non-employee trustees held the following aggregate restricted share awards: Messrs. Buchholz, Kessler, Nayden, Silfen and Adm. Eastwood each held 3,665 restricted common shares; and Mr. Fascitelli held 4,207 restricted common shares.

As compensation for serving on the Company's Board, each non-employee trustee receives an annual fee of \$40,000, of which \$20,000 is paid in the form of restricted shares and \$20,000 is paid in cash. The cash portion of this annual fee is paid on a quarterly pro-rata basis, and the restricted share portion of this annual fee is paid on June 30th of each fiscal year. These restricted shares vest in three equal annual installments, are considered outstanding common shares for purposes of voting along with our common shareholders, and receive dividend-equivalent cash payments along with our common shareholders. In addition, prior to 2007, non-employee trustees received \$1,000 for each Board or committee meeting attended in person and \$500 for each Board or committee meeting attended telephonically. Commencing on January 1, 2007, non-employee trustees will receive \$1,000 for each Board or committee meeting attended either in person or telephonically. Committee chairmen receive an additional annual fee with the lead independent trustee receiving an additional \$5,000 per year, the Audit Committee chairman receiving an additional \$7,500 per year, and the Compensation Committee chairman and the Nominating and Corporate Governance Committee chairman each receiving an additional \$5,000 per year. On September 15, 2006, the Board of Trustees, upon recommendation of the Nominating and Corporate Governance Committee and the Company's management, also approved a one-time payment to members of the Audit Committee in recognition of their additional work in performing the Company's special investigation initiated during the first quarter of 2006. These additional Audit Committee service fees were payable as follows: Mr. Kessler (\$67,500); Mr. Silfen (\$52,500) and Adm. Eastwood (\$30,000).



The Board of Trustees also appointed a Special Committee in March 2006 to consider and analyze strategic and financial alternatives, including potential offers to acquire the Company. The Special Committee was dissolved officially in December 2006. Members of the Special Committee, which consisted of Mr. Silfen (Chairman), Mr. Buchholz and Adm. Eastwood, received the following fees: (i) an initial retainer in the amount of \$10,000 for the Chairman and \$5,000 for other members, (ii) for each full or partial month of service rendered by the Special Committee, a monthly retainer of \$10,000 for the Chairman and \$5,000 for other members, plus such other amounts as may be deemed appropriate by the Board of Trustees following the date on which these retainer fees were paid, and (iii) attendance fees for participating in meetings in the same manner as described above for standing committees (\$1,000 for attendance in person, and \$500 for attendance via telephone conference).

Trustees who also are officers or employees of the Company receive no additional compensation as trustees. In addition, we reimburse our trustees for their reasonable out-of-pocket expenses incurred in attending Board and committee meetings. Upon joining the Board of Trustees, each non-employee trustee receives 3,500 restricted common shares that vest in three equal annual installments. The Board of Trustees may change the compensation of non-employee trustees in its discretion, and has delegated this authority to the Nominating and Corporate Governance Committee.

#### **Compensation Committee Interlocks and Insider Participation**

All of the members of the Compensation Committee of the Company's Board have been determined to be independent trustees in accordance with the listing standards and corporate governance rules of the NYSE and the terms of the Company's Corporate Governance Guidelines. None of these trustees, or any of our executive officers, serves as a member of a board or any compensation committee of any entity that has one or more executive officers serving as a member of the Board of Trustees.

#### **Equity Incentive Plan**

We have established an equity incentive plan, or Plan, for the purpose of attracting and retaining non-employee trustees, executive officers and other key employees, including officers and employees of our operating partnership and its subsidiaries. The Plan provides for the issuance of options to purchase common shares, share awards, share appreciation rights, performance units and other equity-based awards. Each option granted pursuant to the Plan will be designated at the time of grant as either an option intended to qualify as an incentive stock option under Section 422 of the Code, referred to as a qualified incentive option, or as an option that is not intended to so qualify, referred to as a non-qualified option.

##### *Administration of the Plan*

The Plan is administered by our Compensation Committee, which determines all terms of awards under the Plan. Our Compensation Committee also determines who will receive grants under the Plan and the number of common shares subject to the grant.

##### *Eligibility*

Eligibility to participate in the Plan is based upon selection by the Compensation Committee. Employees, employees of our subsidiaries and affiliates, non-employee trustees and consultants who perform services for us and our subsidiaries and affiliates may be selected by the Compensation Committee to participate in the Plan.

##### *Awards*

The Plan authorizes the issuance, in the form of common shares, options, share appreciation rights, performance units and other equity-based awards, of up to 2,000,000 common shares. The Plan limits the maximum number of common shares, options, share appreciation rights, performance units and other equity-based awards that may be a