

INVESTORS REAL ESTATE TRUST  
Form S-11/A  
November 27, 2001

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549**

**FORM S-11/A**

**7th AMENDED REGISTRATION STATEMENT  
UNDER THE SECURITIES ACT OF 1933**

**INVESTORS REAL ESTATE TRUST**  
(Exact name of registrant as specified in governing instruments)

**12 South Main Street, Suite 100  
Minot, ND 58701**  
(Address of principal executive offices, including zip code)

**TIMOTHY P. MIHALICK**  
**12 South Main Street, Suite 100**  
**Minot, ND 58701**  
(Name and address of agent for service)

Copies of communications to:

**THOMAS A. WENTZ, JR.**  
**INVESTORS REAL ESTATE TRUST**  
**12 South Main Street, Suite 100**  
**Minot, ND 58701**  
**(701) 837-4738**  
**FAX (701) 838-7785**

Approximate date of commencement of proposed sale to the public: As soon as practicable on or after the effective date of this registration statement.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 of the Securities Act of 1933, check the following box.  X

**CALCULATION OF REGISTRATION FEE**

<b><u>Title of Securities to be Registered</u></b>	<b><u>Amount to be Registered</u></b>	<b><u>Proposed Maximum Offering Price Per Unit</u></b>	<b><u>Proposed Maximum Aggregate Offering Price</u></b>	<b><u>Amount of Registration Fee</u></b>
Investors Real Estate Trust Shares of Beneficial Interest	2,500,000 Shares	\$8.75 Per Share	\$21,875,000.00 aggregate offering price	\$5,468.75

The registrant hereby amends this registration statement on such dates or date as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

**2,500,000 COMMON SHARES**  
**INVESTORS REAL ESTATE TRUST (IRET)**  
**Common Shares of Beneficial Interest**  
**Minimum Purchase of 100 Shares**

The Company is a self-advised real estate investment trust (REIT) that, through its operating partnership, IRET Properties, is engaged in acquiring, owning, and leasing multi-family and commercial real estate. IRET is listed on the Nasdaq Small Cap Market under the symbol "IRETS."

We intend to use the proceeds of this offering to construct two 73-unit apartment buildings in Rochester, Minnesota and two 67-unit apartment buildings in Bismarck, North Dakota.

The shares of beneficial interest being offered are the functional equivalent of common stock and hold the rights and preferences normally associated with common stock.

	<u>Per Share</u>	<u>Total if all shares sold</u>	<u>Percentage</u>
Public Offering Price	\$8.75	\$ 21,875,000	100%
Less Selling Commission	\$ .70	\$ 1,750,000	8%
Proceeds to us before expenses	\$8.05	\$ 20,125,000	92%

After the payment of all fees and expenses associated with this offering and assuming all the shares are sold, IRET will receive approximately \$20,066,500 or 91.735% of the sale proceeds.

**Investing involves certain risks. See page 4. Some, but not all of the risks to consider are:**

The fixed \$8.75 price of shares under this offering may be priced higher than the current Nasdaq price. You may be paying more for your IRET shares than necessary.

This is a best efforts offering. Even if we do not sell enough shares to fund construction of the planned apartment complexes in Rochester, MN and Bismarck, ND, we will not return any portion of your investment.

The book value of the shares available under this offering is substantially less than the purchase price of \$8.75 per share.

To preserve our status as a REIT, IRET may redeem its shares from any shareholder at anytime for the fair value of the shares at the time of redemption or IRET may refuse to transfer shares to any person.

The shares will be offered on a best efforts basis by broker/dealers who have signed a sales agreement and are registered with the National Association of Securities Dealers (NASD). The broker/dealers are not required to sell a specific number or dollar amount of shares. The broker/dealers will be paid an 8% commission on each share sold. Any money received from investors will go immediately to IRET and will not be placed in escrow or trust. This offering will end on the earlier of one year from the date of this prospectus or when all shares have been sold. Broker/dealers who have agreed to sell the shares are listed on page 20.

**These securities have not been approved or disapproved by the Securities and Exchange Commission or any State Securities Commission nor has the Commission or any State Securities Commission passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.**

Effective Date: December \_\_\_\_\_, 2001 Prospectus

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## Prospectus Summary

This summary may not contain all of the information that may be important to you. You should read this prospectus summary and the accompanying prospectus and the documents incorporated and deemed to be incorporated by reference into the prospectus, including the financial data and the related notes, in their entirety before making an investment decision. When used in this prospectus supplement, the terms "we," "our," "us" and "IRET" refer to Investors Real Estate Trust.

## IRET

Investors Real Estate Trust is a self-administered, self-managed equity real estate investment trust. Our business consists of the ownership and operation of income-producing real properties. We conduct our day-to-day business operations through our operating partnership IRET Properties, a North Dakota Limited Partnership. We have a fundamental strategy of focusing our real estate investments in the upper Midwest consisting primarily of the states of Minnesota, North Dakota, South Dakota, Montana, and Nebraska, of seeking diversification by property type. While we have historically focused most of our investments in the five states listed above, in order to maximize acquisition opportunities, we consider and undertake investments outside of our targeted region. We own a diversified portfolio consisting of 62 multi-family communities, and 61 total commercial properties.

We concentrate on increasing our income from operations per share and funds from operations per share to achieve our objective of paying increasing dividends to our shareholders. Our dividends have increased every year for 31 consecutive years

Our principal office is located at 12 South Main Street Suite 100 Minot, North Dakota 58701; our telephone number there is (701) 837-4738.

## Investment Risks

If you purchase our shares offered pursuant to this offering you will be exposed to a number of risks that may result in a loss of all or a significant portion of your investment. For a complete discussion of the risks please see pages 4 through 16 of the full prospectus which follows this summary. A summary of the more significant risks that your investment with us may be exposed to are

- \* The fixed \$8.75 price of shares under this offering may be priced higher than the current Nasdaq price, which may result in you paying more for your IRET shares than necessary.



- \* Our current level of borrowing as of July 31, 2001 was 218% in relation to our net assets. We intend to borrow 70% of the cost of any real estate constructed or purchased which may result in us becoming too highly leveraged and losing the real estate through foreclosure..
- \* This is a best efforts offering. Even if we do not sell enough shares to fund construction of the planned apartment complexes in Rochester, MN, and Bismarck, ND, we will not return any portion of your investment.
- \* The low trading volume of IRET shares on the Nasdaq small cap market may prevent the timely resale of any shares you purchase.
- \* The management of IRET operates under a number of conflicts of interest that may prevent the company from receiving the benefit of management's undivided effort and time
- \* The book value of the shares available under this offering is substantially less than the purchase price of \$8.75 per share.

## **Business**

We have a fundamental strategy of focusing on the upper Midwest with a primary emphasis on the states of Minnesota, North Dakota, South Dakota, Montana, and Nebraska. For the quarter ended July 31, 2001, IRET's investments in these states account for 76.2% of IRET's total gross revenue of \$21,568,381. We also seek diversification by property type with approximately two-thirds being multi-family apartment communities and the remaining one-third commercial buildings. We attempt to concentrate our multi-family holdings in cities with populations from 35,000 to 500,000 in the 25-mile radius. As it applies to commercial real estate, we seek to acquire properties that are fully leased to quality tenants and located in medium to large population centers containing from 50,000 to 1,000,000 people or more within a 25-mile radius. Under certain circumstances, we seek to diversify our real estate portfolio by investing in assets located through out the United States and in smaller or larger metropolitan areas.

IRET contracts with a locally based third party management company to handle all onsite management duties necessary for the proper operation of a particular property. All management contracts may be terminated on 30 days written notice and provide for compensation ranging from 2.75% to no more than 5% of gross rent collections. The use of local management companies allows us to enjoy the benefits of local knowledge of the applicable real estate market while avoiding the cost and difficulty associated with maintaining management personnel in every city in which we operate.

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Based upon our ability to raise equity capital, we plan to acquire \$100,000,000 of real estate assets on an annual basis going forward applying the investment focus outlined in the previous paragraph of approximately two-thirds apartments and one-third commercial primarily located in the upper Midwestern states of Minnesota, North Dakota, South Dakota, Montana, and Nebraska.

We operate in a manner intended to enable us to qualify as a real estate investment trust under the Internal Revenue Code. In accordance with the Code, a real estate investment trust which distributes its capital gains and at least 90% of its taxable income to its shareholders each year, and which meets certain other conditions, will not be taxed on that portion of its taxable income which is distributed to its shareholders.

We generally use available cash or incur short-term floating rate debt in connection with the acquisition of real estate. We replace the cash used or the floating rate debt with fixed-rate secured debt. In appropriate circumstances, we also may acquire one or more properties in exchange for our equity securities or operating partnership units that are convertible into our shares.

### IRET's Real Estate Portfolio

As of April 30, 2001, our real estate portfolio consisted of 61% multi-family apartment complexes and 39% commercial buildings based on the dollar amount of our original investment plus capital improvements to date. The dollar amount and percentage of total real estate rental revenue by property group for the Fiscal years ending April 30, 2001, 2000 and 1999 was as follows:

	Apartment		Commercial		<u>Total Revenue</u>
	<u>Gross Revenue</u>	<u>%</u>	<u>Gross Revenue</u>	<u>%</u>	
2001	\$55,806,712	75%	\$18,994,010	25%	\$74,800,722
2000	\$42,379,855	78%	\$11,878,026	22%	\$54,257,881
1999	\$33,010,126	85%	\$ 5,775,161	15%	\$38,785,287

The occupancy for each property group for the last three fiscal years ending April 30 was as follows:

	<u>Apartment Occupancy</u>	<u>Commercial Occupancy</u>
2001	93.96%	98.59%
2000	93.24%	97.77%
1999	94.79%	96.54%

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During the past three fiscal years ending April 30, 2001, we acquired 31 apartment communities consisting of 2,686 units for a total cost of \$176,679,134 and 39 commercial properties containing 1,805,669 square feet of space for a total cost of \$184,103,411. During the past three fiscal years ending April 30, 2001, we sold 16 properties realizing net gain of \$4,303,285. No single tenant accounted for more than 10% of revenues during any of the past three fiscal years. As of April 30, 2001 our three largest commercial tenants were: Edgewood Vista 9.7%, HealthEast Medical 7.8%, Microsoft Corporation 7.7% and all other tenants combined 74.8%.

### This Offering and Plan of Distribution

Shares offered by IRET	2,500,000 shares
Shares outstanding after the offering	26,568,346
Use of proceeds	To build 2 apartment buildings in Rochester Minnesota and 2 apartment buildings in Bismarck, North Dakota

NASDAQ Small Cap symbol

IRETS

The number of shares outstanding after the offering assumes that all 2,500,000 shares offered will be sold. Since the offering is being handled on a best efforts basis there is no guarantee that any shares will be sold.

We intend to offer the shares on a best efforts basis through broker/dealers who are licensed by the National Association of Securities Dealers (NASD). Under a best efforts offering there is no guarantee that any share will be sold nor is there any requirement that a participating broker dealer actually sell any shares. We will not sell any shares directly to the public. All shares must be sold through a participating broker/dealer. For any shares sold by a participating broker dealer and paid for by the investor, we will pay a commission of 8% to the selling broker/dealer.

All shares will be sold on a first come first serve basis. Each participating broker/dealer may sell all or any part of the offering assuming that sales by all participating broker/dealers does not exceed the 2,500,000 shares registered for sale.

Only residents of **Minnesota, Montana, North Dakota, and South Dakota** may purchase shares available under this offering. There is a minimum purchase of 100 shares.

The offering will terminate one year from the date on the front of this prospectus or when all shares have been sold, whichever occurs first.

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## Use of Proceeds

We estimate that the net proceeds from the sale of the shares we are offering with this prospectus will be approximately \$20,066,500.00 million. "Net proceeds" is what we expect to receive after paying expenses of the offering, which we estimate will be approximately \$1,210,000.00 or about 8.265% of the total offering. We plan to use the proceeds to construct two 67-unit apartment buildings in Bismarck, North Dakota at an estimated cost of \$9,400,000.00 and two 73-unit apartment buildings in Rochester, Minnesota at an estimated cost of \$10,600,000.00. Pending such uses, the net proceeds may be invested in short-term income-producing investments.

## Unaudited Quarterly Financial Data For Quarter Ending July 31, 2001

### Summary Operating Data - First Quarter Fiscal 2002 - May 1, 2001, to July 31, 2001

We have provided in the table below our summary financial and operating data. In the opinion of the company, the accompanying unaudited condensed consolidated financial statements contain all adjustments (of a normal recurring nature) necessary for a fair presentation of the financial statements. The results of operations for the three months ended July 31, 2001, are not necessarily indicative of operating results for the entire year.

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**Statement of Operations**

for the Three-Month Period Ended July 31, 2001 and 2000

<u>Three months ended July 31,</u>	<u>2001</u>	<u>2000</u>
<b>REVENUE</b>		
Real Estate Rentals*	\$ 21,568,381	\$ 17,291,976
Interest, Discounts and Fees	\$ <u>211,713</u>	\$ <u>139,668</u>
Total Revenue	\$ <u>21,780,094</u>	\$ <u>17,431,644</u>
<b>OPERATING EXPENSE</b>		
Interest	\$ 7,198,378	\$ 5,677,556
Depreciation	\$ 3,656,762	\$ 2,656,209
Utilities and Maintenance	\$ 2,971,809	\$ 2,613,195
Taxes	\$ 2,115,630	\$ 1,701,654
Insurance	\$ 314,685	\$ 167,280
Property Management Expenses	\$ 1,630,079	\$ 1,410,502
Administrative Expense & Trustee Services	\$ 386,307	\$ 463,960
Operating Expenses	\$ 126,622	\$ 80,477
Amortization	\$ <u>128,956</u>	\$ <u>95,680</u>
Total Expenses	\$ <u>18,529,228</u>	\$ <u>14,866,513</u>
<b>INCOME BEFORE GAIN/LOSS ON PROPERTIES AND MINORITY INTEREST</b>		
	\$ 3,250,866	\$ 2,565,131
GAIN ON SALE OF INVESTMENT	\$ 307,934	\$ 0
MINORITY INTEREST OTHER PARTNERSHIP	\$ -56,755	\$ 0
MINORITY INTEREST PORTION OF OPERATING PARTNERSHIP INCOME	\$ <u>-726,318</u>	\$ <u>-425,667</u>
NET INCOME	\$ <u>2,775,727</u>	\$ <u>2,139,464</u>

\* Includes \$333,295 and \$354,194 for 3 months ended 07/31/01 and 07/31/00 respectively of "straight-line rents." Straight-line rents are the amounts to be collected in future years from tenants occupying commercial properties under leases, which provide for periodic increases in rents. It is determined by dividing the total rent payable for the lease term by the total rental periods and allocating the resulting average rent to the period covered by the report.

**Selected Financial Data**

	<u>3 Months Ended</u> <u>07/31/01</u>	<u>3 Months Ended</u> <u>07/31/00</u>
<b>PER SHARE DATA:</b>		
Income before Gain(Loss) on Properties Sold (after minority interest and reserves)	\$ 0.10	\$ 0.09
Net Income Per Share	\$ 0.11	\$ 0.09
Dividends Paid Per Share	\$ 0.1450	\$ 0.1325



consistent basis in accordance with GAAP.

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FFO presented herein is not necessarily comparable to FFO presented by other real estate companies because not all real estate companies use the same definition.

FFO should not be considered as an alternative to net income (determined in accordance with GAAP) as a measure of IRET's liquidity, nor is it necessarily indicative of sufficient cash flow to fund all of IRET's needs or its ability to service indebtedness or make distributions.

## **Recent Developments**

### **Revenues**

Total revenues of the Operating Partnership for the first quarter of Fiscal 2002 ending July 31, 2001, were \$21,780,094, compared to \$17,431,644 received in the first quarter of the prior fiscal year. This is an increase of \$4,348,450 or 25%. This increase is attributable to the addition of new properties to IRET's investment portfolio. Funds From Operations for the Operating Partnership for the three-month period ended July 31, 2001, increased to \$6,899,059, compared to \$5,221,340 for the first quarter of Fiscal 2000, an increase of 32.1%. See pages 26 through 30 for a more complete discussion of first quarter results for the period ending July 31, 2001.

### **Capital Gain Income**

The Operating Partnership realized capital gain income of \$307,934 during the first quarter of Fiscal 2002 ending July 31, 2001. This resulted from the sale of the 36-unit Sunchase Apartment property in Fargo, North Dakota and the sale of the GNMA investment portfolio, resulting in realized gains of \$296,409 and \$11,526 respectively. No capital gain income was realized in the first quarter of the prior fiscal year.

### **Acquisition of Interlachen Corporate Center - Edina, Minnesota**

On August 13, 2001, we acquired Interlachen Corporate Center a 105,084 square foot office building located in Edina, Minnesota for \$16,500,000 in cash.

Interlachen Corporate Center is a four-story building containing four levels of office space and one level of underground parking containing 36 stalls located at 5050 Lincoln Drive Edina Minnesota. The building was completed in April of 2001 and is currently 95% leased to five tenants. The primary tenant occupying 75% of the space is Alliant Techsystems, Inc. (NYSE symbol ATK). Alliant Techsystems is an aerospace and defense company with leading market positions in propulsion, composite structures, munitions, and precision capabilities. The company, which is headquartered at the Interlachen Corporate Center, employs approximately 9,600 people worldwide and has two business segments: Aerospace and Defense.

Alliant's lease commenced in May of 2001 and runs for a 7-year term.

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### **Acquisition of Retail Strip Center Cottage Grove, Minnesota**

On July 6, 2001, we acquired the Cottage Grove Strip Center which is a 15,217 square foot retail strip center located in Cottage Grove, Minnesota for an agreed value of \$1,100,000 which was paid partly in cash of \$823,594.00

and the balance of \$276,594 with 31,603.53 limited partnership units with a value of \$8.752 per share.

The Cottage Grove Strip Center is a single story multi-tenant retail building built in 1986 and located at 7155 80th Street South Cottage Grove, Minnesota. It is currently 100% leased to eight tenants with remaining lease terms ranging from 2 to 6 years. All rents paid by the current tenants are at market rates. No one tenant occupies more than 35% of the leasable space.

### Price Range of Common Shares and Distributions

The following sets forth the high and low sale prices for our common shares for the periods indicated as reported by the NASDAQ Small Cap Market and the distributions we paid with respect to each period.

	<u>High</u>	<u>Low</u>	<u>Distribution Per Share</u>
Fiscal 1999			
First Quarter ending July 31, 1998	\$ 7.313	\$ 7.188	\$ 0.11000
Second Quarter ending October 31, 1998	\$ 14.00	\$ 6.50	\$ 0.11500
Third Quarter ending January 31, 1999	\$ 7.875	\$ 7.00	\$ 0.12000
Fourth Quarter ending April 30, 1999	\$ 8.00	\$ 7.00	\$ 0.12250
Fiscal 2000			
First Quarter ending July 31, 1999	\$ 17.875	\$ 7.063	\$ 0.12400
Second Quarter ending October 31, 1999	\$ 10.50	\$ 7.063	\$ 0.12600
Third Quarter ending January 31, 2000	\$ 8.375	\$ 7.250	\$ 0.12800
Fourth Quarter ending April 30, 2000	\$ 8.125	\$ 7.125	\$ 0.13000
Fiscal 2001			
First Quarter ending July 31, 2000	\$ 8.125	\$ 7.375	\$ 0.13250
Second Quarter ending October 31, 2000	\$ 8.250	\$ 7.594	\$ 0.13500
Third Quarter ending January 31, 2001	\$ 8.50	\$ 7.438	\$ 0.14000
Fourth Quarter ending April 30, 2001	\$ 8.980	\$ 8.00	\$ 0.14250
Fiscal 2002			
First Quarter ending July 31, 2001	\$ 10.490	\$ 8.250	\$ 0.14500
Second Quarter through October 31, 2001	\$ 9.430	\$ 8.80	\$ 0.14750

On November 16, 2001, the last reported sale price of our common shares on the Nasdaq Small Cap Market was \$9.17 per share.

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## Legal Matters

Pringle & Herigstad, P.C., Minot, North Dakota, our legal counsel, will issue opinions about the valid issuance of the shares offered by this prospectus and tax matters relating to the qualification of IRET as a real estate investment trust.

## Experts

The audited consolidated financial statements for Investors Real Estate Trust included in this prospectus have been audited by Brady, Martz & Associates, P.C. independent public accountants, as indicated in their report with respect thereto, and are included in this prospectus in reliance upon the authority of said firm as experts in accounting and auditing in giving said report.

## Available Information Concerning IRET

### Securities and Exchange Commission

IRET is currently a reporting company pursuant to the Securities Exchange Act of 1934 and annually files a Form 10-K during July and quarterly Forms 10-Q for the first three quarters of each year with the Securities and Exchange Commission. The information filed by IRET can be inspected and copied at the Public Reference Room maintained by the Securities and Exchange Commission in Washington, DC, at 450 Fifth Street NW, Room 1024, Washington, DC 20549. For further information about the Public Reference Room, please call 1-800-SEC-0330.

The Securities and Exchange Commission maintains a website at <http://www.sec.gov>. Annual and quarterly reports, proxy statements and other information regarding IRET can be obtained from the SEC website.

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## PROSPECTUS

### The Company

Investors Real Estate Trust ("IRET") was organized under the laws of the State of North Dakota on July 31, 1970. Since its formation, IRET has qualified and operates as a "real estate investment trust" under Sections 856-858 of the Internal Revenue Code. IRET is a self-administered and self-managed company. As of July 31, 2001, IRET owned and operated a portfolio of 62 apartment communities containing 7,833 apartment units and 61 commercial buildings containing 2,528,735 square feet of leasable space.

IRET's investment strategy is to maintain its real estate investment portfolio at approximately 67% invested in multi-family apartment communities located primarily in the upper Midwest and the remaining 33% of real estate owned in commercial property warehouses, retirement homes, manufacturing plants, offices, and retail properties leased to single or multiple tenants for 10 years or longer located throughout the upper Midwest. IRET operates mainly within the states of North Dakota and Minnesota, although it has real estate investments in the states of Colorado, Georgia, Idaho, Iowa, Kansas, Michigan, Montana, Nebraska, South Dakota, Washington, and Texas.

IRET seeks to leverage all property acquired so that the debt is approximately 70% of the property's value.

IRET conducts all of its daily business operations through its operating partnership, IRET Properties, a North Dakota Limited Partnership. IRET Properties is principally engaged in acquiring, owning, operating and leasing multi-family apartment buildings and commercial real estate. The sole general partner of IRET Properties is IRET, Inc. IRET owns 100% of IRET, Inc.

As the general partner, IRET, Inc. owns a 76% interest as of April 30, 2001, in IRET Properties. The remaining ownership of IRET Properties is held by individual limited partners, none of who own more than 10% of the outstanding limited partnership units of IRET Properties.



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IRET's principal source of operating revenue is rental income from real estate properties owned and operated by its operating partnership. A minor amount of revenue is derived from interest on short-term investments in government securities and interest on savings deposits. In addition to operating income, IRET has received capital gain income when real estate properties have been sold at a price in excess of the depreciated cost of said properties.

IRET has its only office at 12 South Main, Suite 100, Minot, North Dakota 58701, (701) 837-4738.

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**Selected Financial Information For the Past Three Years**

IRET operates on a fiscal year ending April 30th. For the past three fiscal years, sources of operating revenue, total expenses, net real estate investment income, capital gain income, total income, and dividend distributions are as follows:

Fiscal Year Ending 4/30	<u>2001</u>	<u>2000</u>	<u>1999</u>
Revenue from Operations			
Real Estate Rentals	\$ 74,800,722	\$ 54,257,881	\$ 38,785,287
Interest, Discount & Fees	<u>\$ 966,428</u>	<u>\$ 1,187,312</u>	<u>\$ 1,141,975</u>
	\$ 75,767,150	\$ 55,445,193	\$ 39,927,262
Expenses	<u>\$ 65,579,338</u>	<u>\$ 46,896,635</u>	<u>\$ 33,525,586</u>
Income Before Gain/Loss on Properties and Minority Interest	\$ 10,187,812	\$ 8,548,558	\$ 6,401,676
Gain on Sale of Properties	\$ 601,605	\$ 1,754,496	\$ 1,947,184
Minority Interest Portion of Operating Partnership Income	<u>\$ -2,095,177</u>	<u>\$ -1,495,209</u>	<u>\$ -744,725</u>
Net Income	<u>\$ 8,694,240</u>	<u>\$ 8,807,845</u>	<u>\$ 7,604,135</u>
Per Share			
Net Income Per Share ( <i>basic and diluted</i> )	\$ .38	\$ .42	\$ .44
Dividends Paid	\$ .55	\$ .51	\$ .47

Over the past three years IRET's investment in real estate, ownership, and sources of revenue by geographic location has been as follows:

**Real Estate Investment by State for the Last Three Years Ended April 30 (1)**

	<u>Commercial</u>						<u>Apartments</u>						
	<u>State</u>	<u>2001</u>		<u>2000</u>		<u>1999</u>	<u>2001</u>		<u>2000</u>		<u>1999</u>		
CO	\$	0	0%	\$ 1,409,445	1%	\$ 0	0%	\$ 39,050,180	11%	\$ 38,837,432	12%	\$ 38,599,278	17%
GA	\$	3,971,878	2%	\$ 3,971,878	3%	\$ 3,971,878	6%	\$ 0	0%	\$ 0	0%	\$ 0	0%
ID	\$	4,788,294	2%	\$ 4,788,094	4%	\$ 5,792,182	9%	\$ 3,853,638	1%	\$ 3,833,486	1%	\$ 3,822,199	2%
IA	\$	0	0%	\$ 0	0%	\$ 0	0%	\$ 4,281,967	1%	\$ 0	0%	\$ 0	0%
KS	\$	0	0%	\$ 0	0%	\$ 0	0%	\$ 26,818,295	7%	\$ 26,541,920	8%	\$ 0	0%

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MI	\$ 2,121,474	1%	\$ 2,113,574	2%	\$ 2,113,574	3%	\$ 0	0%	\$ 0	0%	\$ 0	0%
MN	\$143,191,654	62%	\$44,384,465	37%	\$ 7,873,122	12%	\$55,485,023	15%	\$ 45,712,269	14%	\$38,645,843	17%
MT	\$ 4,832,860	2%	\$ 4,130,684	3%	\$ 3,627,565	5%	\$36,883,028	10%	\$ 24,982,540	8%	\$18,503,389	8%
NE	\$ 14,640,541	6%	\$13,112,879	11%	\$11,983,078	18%	\$9,956,873	3%	\$ 9,572,130	3%	\$ 0	0%
ND	\$ 48,492,536	21%	\$45,829,016	38%	\$25,212,104	37%	\$112,882,092	31%	\$107,836,564	33%	\$94,845,697	41%
SD	\$ 8,019,609	3%	\$ 974,739	1%	\$ 5,403,765	8%	\$16,769,796	5%	\$ 16,559,607	5%	\$16,427,555	7%
TX	\$ 0	0%	\$ 0	0%	\$ 0	0%	\$37,617,106	10%	\$ 37,473,258	11%	\$ 0	0%
WA	\$ 0	0%	\$ 0	0%	\$ 0	0%	\$17,979,624	5%	\$ 17,855,910	5%	\$17,731,015	8%
Other	\$ _____	0%	\$ _____	0%	\$1,273,596	2%	\$ _____	0%	\$ _____	0%	\$ _____	0%
Total	\$230,058,846	100%	\$120,714,774	100%	\$67,250,864	100%	\$361,577,622	100%	\$329,205,117	100%	\$228,574,976	100%

(1) Investment is the amount paid by IRET for the land and buildings plus the cost of any improvements made to the real estate.

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**Commercial Square Footage for the Last Three Years Ended April 30**

State	2001		2000		1999	
	sq. ft.	%	sq. ft.	%	sq. ft.	%
CO	29,408	1%	40,000	2%	0	0%
GA	0	0%	29,408	2%	29,408	2%
IA	0	0%	0	0%	0	0%
ID	69,599	3%	139,198	9%	139,198	12%
KS	0	0%	0	0%	0	0%
MI	16,000	1%	16,000	1%	16,000	1%
MN	1,430,460	57%	554,962	35%	176,319	15%
MT	70,598	3%	64,803	4%	59,603	5%
NE	126,774	5%	127,274	8%	101,274	8%
ND	682,893	27%	623,593	39%	600,765	48%
SD	87,786	3%	11,971	1%	106,147	9%
TX	0	0%	0	0%	0	0%
WA	0	0%	0	0%	0	0%
Total	2,513,518	100%	1,607,209	100%	1,228,714	100%

**Apartment Units Owned For the Last Three Years Ended April 30**

	2001		2000		1999	
	%	Units	%	Units	%	Units
	0%	597	8%	597	8%	597
	2%	0	0%	0	0%	0

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0%	132	2%	0	0%	0	0%
12%	60	1%	60	1%	60	1%
0%	520	7%	520	7%	0	0%
1%	0	0%	0	0%	0	0%
15%	1,236	16%	1,163	16%	1,079	20%
5%	749	10%	475	6%	330	6%
8%	264	3%	264	4%	0	0%
48%	3,085	39%	3,014	41%	2,740	50%
9%	418	5%	418	6%	418	8%
0%	504	6%	504	7%	0	0%
<u>0%</u>	<u>304</u>	<u>4%</u>	<u>304</u>	<u>4%</u>	<u>304</u>	<u>5%</u>
100%	7,869	100%	7,319	100%	5,528	100%

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**Gross Revenue from Real Estate Activities for the Last Three Years Ended April 30**

State	<u>Commercial</u>			<u>Apartments</u>		
	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>
CO	\$ 0	0%	\$ 0	0%	\$ 0	0%
GA	\$ 436,907	2%	\$ 436,907	4%	\$ 436,907	8%
IA	\$ 0	0%	\$ 0	0%	\$ 0	0%
ID	\$ 26,780	0%	\$ 63,081	1%	\$ 101,702	2%
KS	\$ 0	0%	\$ 0	0%	\$ 0	0%
MI	\$ 202,912	1%	\$ 192,264	2%	\$ 192,264	3%
MN	\$ 10,085,064	53%	\$ 3,169,633	27%	\$ 459,246	8%
MT	\$ 591,581	3%	\$ 569,668	5%	\$ 578,412	10%
NE	\$ 1,367,740	7%	\$ 1,201,903	10%	\$ 416,755	7%
ND	\$ 5,675,734	30%	\$ 5,878,584	49%	\$ 2,976,140	52%
SD	\$ 607,293	3%	\$ 365,987	3%	\$ 613,735	11%
TX	\$ 0	0%	\$ 0	0%	\$ 0	0%
WA	\$ 0	0%	\$ 0	0%	\$ 0	0%
Total	\$ 18,994,011	100%	\$ 11,878,027	100%	\$ 5,775,161	100%

**Net Income from Real Estate Activities for the Last Three Years Ended April 30**

State	Commercial			Apartments								
	2001	2000	1999	2001	2000	1999						
CO \$	0	0%	0	0%	0	0%	1,832,402	11%	1,551,246	12%	1,456,732	14%
GA \$	310,708	4%	321,847	6%	313,720	11%	0	0%	0	0%	0	0%
IA \$	0	0%	0	0%	0	0%	55,868	0%	0	0%	0	0%
ID \$	-377,029	-5%	-349,029	-6%	-346,420	-12%	173,756	1%	187,005	1%	182,780	2%
KS \$	0	0%	0	0%	0	0%	787,400	5%	745,696	6%	0	0%
MI \$	93,154	1%	78,988	1%	75,732	3%	0	0%	0	0%	0	0%
MN \$	3,993,685	48%	1,718,743	31%	247,823	8%	3,108,143	19%	2,759,136	21%	2,465,305	23%
MT \$	155,815	2%	205,684	4%	221,922	7%	1,570,239	10%	1,107,386	8%	752,074	7%
NE \$	719,870	9%	589,536	11%	215,732	7%	376,243	2%	318,190	2%	0	0%
ND \$	3,179,328	38%	2,694,967	49%	1,870,459	63%	5,496,014	34%	4,290,775	33%	4,546,399	43%
SD \$	268,989	3%	199,381	4%	361,894	12%	895,872	5%	1,007,574	8%	853,890	8%
TX \$	0	0%	0	0%	0	0%	1,227,386	8%	432,807	3%	0	0%
WA \$	<u>0</u>	<u>0%</u>	<u>0</u>	<u>0%</u>	<u>0</u>	<u>0%</u>	<u>783,319</u>	<u>5%</u>	<u>692,017</u>	<u>5%</u>	<u>312,817</u>	<u>3%</u>
Total \$	8,344,520	100%	5,460,117	100%	2,960,862	100%	16,306,642	100%	13,091,832	100%	10,569,997	100%

**Risk Factors**

An investment in the shares involves various risks. Before investing you should carefully consider the following risks:

**Price of Shares May be Higher than Nasdaq Price**

The \$8.75 price is higher than the price paid by most of the current holders of IRET's shares. The \$8.75 price may be higher than the price at which IRET shares trade on the Nasdaq Smallcap Market. As a result, before buying shares pursuant to this offer, you should check to determine whether you might be able to buy the same number of shares on the Nasdaq for a lower price. See "Determination of Offering Price" on Page 19.

**Price Exceeds Book Value**

The book value of IRET shares of beneficial interest is substantially less than the \$8.75 purchase price. As of April 30, 2001, the book value of the 24,068,346 shares then outstanding was \$4.94 per share. Assuming all of the shares registered under this offering are sold, the estimated resulting book value will be \$5.23 per share. Thus, a purchasing shareholder paying \$8.75 per share will incur an immediate book value dilution of \$3.52 per share.

**High Leverage on Individual Properties or the Overall Portfolio May Result in Losses**

IRET seeks to borrow approximately 70% of the cost of real estate purchased or constructed. The 70% per property borrowing limitation is a policy that has been established by management and approved by the Board of Trustees. Since it is a policy, the 70% limitation may be changed at anytime by IRET without notice to or the approval of the shareholders. For the past three years as of April 30th, the total mortgage indebtedness of IRET as it relates to the total real estate assets of IRET at book value has been as follows:

	<u>2001</u>	<u>2000</u>	<u>1999</u>
Real Estate Assets	\$ 591,636,468	\$ 449,919,890	\$ 295,825,839
Total real estate debt	\$ 368,956,930	\$ 265,056,767	\$ 175,071,069
Leverage percentage	60.4%	69.8%	69.0%

In addition to the policy of not exceeding an overall 70% debt ratio on all real estate, the Declaration of Trust, Article 1, Section J provides that the total borrowings of IRET, secured and unsecured, shall be reasonable in relation to the total net assets of IRET, and shall be reviewed by the trustees at least quarterly. The maximum borrowings in relation to the net assets, in the absence of a satisfactory showing that a higher level of borrowing is appropriate, shall not exceed 300% of net assets in the aggregate. Any borrowing in excess of the 300% limit shall be approved by a majority of the independent trustees and disclosed to shareholders in the next quarterly report of IRET along with justification for the excess. There is no limit on the amount of money IRET may borrow on an individual property. For the past three years as of April 30, the total indebtedness of IRET as it relates to its total net assets has been as follows:

	<u>2001</u>	<u>2000</u>	<u>1999</u>
Total Net Assets	\$ 177,948,354	\$ 145,038,261	\$ 100,263,836
Total debt	\$ 389,086,105	\$ 287,940,038	\$ 191,229,475
Leverage percentage	219%	199%	191%

This amount of leverage may expose IRET to cash flow problems in the event rental income decreases. Such a scenario may require IRET to sell properties at a loss, reduce or eliminate quarterly cash distributions to shareholders or default on the mortgage which would result in loss of the property through foreclosure.

**Inability to Sell All the Shares May Prevent Completion of Rochester or Bismarck Apartments**

The shares are being sold by the broker/dealers on a "best efforts" basis whereby the selling agent is only required

to use its best efforts to locate purchasers for the shares, but is not obligated to ensure that a minimum number or that even any shares are sold. Therefore, no assurance is given as to the amount of proceeds that will be available for investment by IRET. In the event fewer than all the shares are sold during the offering period which is the shorter of one year from the date on the front of the prospectus or when all shares have been sold, IRET would not have sufficient money to complete the construction of the apartments in Rochester or Bismarck. This could result in the fixed operating expenses of IRET, as a percentage of gross income, to be higher and consequently reduce the taxable income distributable to shareholders.

In the event less than all the shares are sold, any net proceeds actually received by us will be used by us as follows and will not be returned to you.

<u>Assumed Share Sales</u>	<u>Net Proceeds to IRET</u>	<u>Use of proceeds</u>
25%	\$ 5,016,625	Apply toward the construction of one 73 unit apartment complex in Rochester, MN
50%	\$10,033,250	Construct one 73 unit apartment complex in Rochester for \$5.3 million and apply the balance toward the construction of a second 73 unit apartment complex in Rochester
75%	\$15,049,875	Construct two 73 unit apartment complexes in Rochester for \$10.6 million and apply the balance toward the construction of one 67 unit apartment complex in Bismarck, ND
100%	\$20,066,500	Construct two 73 unit apartment buildings in Rochester for \$10.6 million and two 67 unit apartment buildings in Bismarck for \$9.4 million for a total cost of \$20 million

We plan to fund the balance necessary to complete the construction of any apartment complex using our existing resources as described on page 21 "Use of Proceeds."

**Delay or Increased Costs for the Apartments to be Built in Rochester or Bismarck Could Negatively Impact Earnings**

Even though IRET has prepared a detailed budget and timeline for completion of the apartments to be built in Rochester and Bismarck certain factors beyond IRET's control could cause a delay in the completion of the apartments to be built in both cities as well as dramatically increase the costs of construction. Those factors include, but are not limited to, unusual winter weather, availability of qualified labor and materials, and city permits. IRET currently owns enough properly zoned land in Rochester and Bismarck to accommodate the apartments to be constructed. Both Cities employ a routine permit process requiring only the payment of a nominal permit fee before construction may commence. IRET has factored the usual harsh winter conditions present in North Dakota and Minnesota into the construction schedule. The apartments to be constructed are based on the same designs as previously

constructed in Bismarck and Rochester in 1999 and 2000. Based on our past experience building similar complexes in the same cities, IRET is seeking to raise \$20,066,500.00 in net proceeds after payment of expenses which represents only a \$66,500.00 or a 3% cushion to cover cost overruns on the budgeted construction cost of \$20,000,000.00. Delay

beyond the completion date or cost overruns beyond the budget will delay IRET opening the property and collecting rent. However, IRET will still incur the fixed costs of insurance, taxes and management without any income. The result will be reduced earnings.

### **Geographic Concentration in North Dakota and Minnesota May Result in Losses**

A majority of IRET's assets are presently invested in real estate in North Dakota and Minnesota.

For fiscal year 2001 IRET received 53% of its commercial gross revenue of \$18,994,011 from commercial real estate from activities in Minnesota and 30% of its commercial gross revenue from North Dakota. Minnesota accounts for 57% of IRET's commercial real estate portfolio by square footage while North Dakota accounts for 27%.

For fiscal year 2001, IRET received 16% of its apartment gross revenue of \$42,379,855 from activities in Minnesota and 34% of its apartment gross revenue from North Dakota. IRET owns 1,163 apartment units in Minnesota or 16% of IRET's total number of apartment units and 39% of IRET's apartment units or 3,014 units are located in North Dakota.

As a result of this concentration in two states, IRET may be subject to substantially greater risk than if its investments were more dispersed geographically. Due to the high concentration in North Dakota and Minnesota changes in local conditions, such as building by competitors or a decrease in employment may adversely affect the performance of IRET's investments much more severely.

While the Minnesota economic climate has been strong for past five years, it is dependent on the areas of service, manufacturing, high technology, and agriculture. Since 75% of IRET's assets in Minnesota are commercial properties, an economic weakening in any of these areas would adversely affect the performance of IRET's real estate portfolio by decreasing demand for rental space.

In contrast, the North Dakota economy is dependent on the areas of agriculture and mineral development. Both of these industries were depressed for most of the past decade. In the opinion of IRET there appears little prospect for improvement. While the North Dakota unemployment rate is below 4%, the state experienced almost zero population growth during the last decade and currently has a high concentration of people over 65. During the past decade, the population located in the rural areas declined significantly while that of the cities and towns over 15,000 increased on average by 5%. This increase was due to the rural population moving to North Dakota's larger towns and cities of Fargo, Bismarck, Grand Forks, Minot, Jamestown, Dickinson, Williston, and Devils Lake. Of IRET's assets in North Dakota, over 90% are located in the cities and towns previously listed. It is predicted that the rural population in North Dakota will continue to move to North Dakota's larger towns and cities over the coming decade and that the overall population will decline over the next decade.

Unlike Minnesota, two-thirds of IRET's assets in North Dakota are multi-family apartment complexes, which are dependent on a stable or growing population. If North Dakota's population declines, IRET will experience difficulty in renting its real estate located in North Dakota at acceptable rates of return. This will result in a decrease in net

income and a corresponding decline in the level of distributions to shareholders.

IRET currently has no limitations or targets concerning the concentration of assets or geographic location of business activities.

#### **Senior Securities will be Paid Before IRET Shares**

As of July 31, 2001, IRET has issued \$18,505,565 of securities to other investors, which are senior to the shares offered for sale under this document. As a result, in the event IRET ceases operations or liquidates and distributes all of its assets, the holders of the senior securities will be paid in full first before any money is distributed to shareholders. This preference will result in shareholders receiving less money. Currently, IRET is authorized to issue no more than \$5,000,000 in senior securities. However, this policy can be changed by the trustees at any time without advance notice to or a vote of the shareholders.

#### **Current and Future Commercial Vacancy May Negatively Impact Earnings**

Over the next 12 months leases covering approximately 11.69% of the total commercial square footage owned by IRET will expire. As of July 31, 2001, approximately 1.23% of the total commercial square footage owned by IRET was vacant. Of the current vacancy, 2.7% is represented by the warehouse in Boise, Idaho which has been vacant for the last eleven (11) months. As a result, in the event IRET is unable to rent or sell those properties affected by an expiring lease or that are already vacant, then 14.6% of IRET's total commercial portfolio per square foot will be vacant. If not corrected, this vacancy will negatively impact IRET's earnings and result in lower distributions to shareholders and a possible decline in the value of IRET real estate portfolio.

While it is difficult to clearly identify specific properties which may not produce sufficient returns, IRET currently has two commercial properties facing great risk of not producing rental income. Those properties are the Boise warehouse which is currently vacant and producing no income. IRET is still paying all expenses associated with the property, which are expected to be \$500,000 over the next 12 months.

The second building is the Carmike Cinema building in Grand Forks, North Dakota. The tenant is currently in Chapter 11 bankruptcy. All rent has been paid to date, and the tenant has affirmed the lease in the bankruptcy proceeding and may no longer reject the lease. However, Carmike may not successfully complete its Chapter 11 re-organization and could default on its obligations. The deadline for rejection of the lease does not expire until November 1, 2001. IRET currently receives \$278,512 in rent annually which based on fiscal year 2001 gross revenues of \$74,774,464. Annual rent from Carmike represents less than 1% of annual gross revenue. However, should Carmike reject the lease, IRET would incur a decline in net income.

#### **Mortgage Lending May Result in Losses**

Over the past three years, IRET has the following mortgage loans:



**Mortgage Loans Receivable**

<u>Location</u>	<u>Real Estate Security</u>	<u>6/30/01</u>	<u>4/30/01</u>	<u>4/30/00</u>	<u>4/30/99</u>	<u>Interest Rate</u>	<u>Priority</u>
Higley Heights - Phoenix, AZ	Orange Grove Campus/Office	\$ 0	\$ 0	\$ 598,843	\$ 742,811	8.00%	First
Great Plains Software - Fargo, ND	Facility	\$ 0	\$ 0	\$ 0	\$ 9,185,758	9.50%	First
Hausmann Rentals - Moorhead, MN	Apartment Building	\$ 277,019	\$ 278,527	\$ 287,115	\$ 294,968	9.00%	First
1516 N. Street - Bismarck, ND	Apartment Building	\$ 0	\$ 0	\$ 0	\$ 159,965	10.25%	First
Scottsbluff Estates - Scottsbluff, NE	Apartment Building	\$ 106,608	\$ 106,926	\$ 108,752	\$ 110,437	8.00%	Second
Fairfield Apts - Hutchinson, MN	Apartment Building	\$ 42,692	\$ 43,313	\$ 45,930	\$ 46,500	8.75%	First
1921 7th Street NW - Minot, ND	Rental House	\$ 745	\$ 954	\$ 2,269	\$ 3,282	7.00%	First
Inwards Building - Detroit Lakes, MN	Apartment Building	\$ 0	\$ 0	\$ 0	\$ 117,493	9.00%	First
Edgwood Vista - Norfolk, MN	Alzheimers Facility	\$ 477,375	\$ 477,375	\$ 477,375	\$ 0	11.00%	First
Mankato Heights Plaza - Mankota, MN	Strip Mall	\$ 3,200,000	\$ 0	\$ 0	\$ 0	10.00%	First
Other Mortgages		\$ <u>130,000</u>	\$ <u>130,000</u>	\$ <u>130,000</u>	\$ <u>60,000</u>	8.00%	
Total		\$ <u>4,234,438</u>	\$ <u>1,037,095</u>	\$ <u>1,650,284</u>	\$ <u>10,721,213</u>		
Less:							
Unearned Discounts		\$ 0	\$ 0	\$ -392	\$ -1,898		
Deferred gain from property dispositions		\$ 0	\$ 0	\$ 0	\$ -1,000		
Allowance for Losses		\$ <u>0</u>	\$ <u>0</u>	\$ <u>120,314</u>	\$ <u>-120,314</u>		
		\$ 4,234,438	\$ 1,037,095	\$ 1,529,578	\$ 10,598,001		

All real property investments are subject to some degree of risk, which, in some cases, varies according to the size of the investment as a percentage of the value of the real property. In the event of a default by a borrower on a mortgage loan, it may be necessary for IRET to foreclose its mortgage or engage in negotiations that may involve further outlays to protect IRET's investment.

The mortgages securing IRET's loans may be, in certain instances, subordinate to mechanics' liens, materialmen's liens, or government liens and, in instances in which IRET invests in a junior mortgage, IRET may be required to make payments in order to maintain the status of the prior lien or to discharge it entirely. In certain areas, IRET might lose first priority of its lien to mechanics' or materialmen's liens due to wrongful acts of the borrower. It is possible that the total amount which may be recovered by IRET in such cases may be less than its total investment, with resultant losses to IRET. Loans made by IRET may, in certain cases, be subject to statutory restrictions limiting the maximum interest charges and imposing penalties, which may include restitution of excess interest, and, in some cases, may affect enforceability of the debt. There can be no assurance that all or a portion of the charges and fees which IRET receives on its loans may not be held to exceed the statutory maximum, in which case IRET may be subjected to the penalties imposed by the statutes.

IRET may change any policy relating to its mortgage lending at any time without prior notice to or the approval of the shareholders.

**Lack of Employment Contracts May Prevent IRET from Retaining Qualified Management**

Certain operating expenses of IRET, including compensation to employees and trustees, must be met regardless of profitability. IRET will be dependent upon its officers for essentially all aspects of its business operations. Because the officers have experience in the specialized business segment in which IRET operates, the loss of any of the officers, for any reason, would likely have a material adverse affect on IRET's operations. The officers may terminate their relationship with IRET at any time and without providing any advance notice to IRET. IRET currently relies on the following key employees:

<u>Name</u>	<u>Position</u>	<u>Age</u>
Thomas A. Wentz, Sr.	President & Chief Executive Officer	66
Timothy P. Mihalick	Senior Vice President & Chief Operating Officer	42
Thomas A. Wentz, Jr.	Vice President & Legal Counsel	35
Diane K. Bryantt	Secretary & Chief Financial Officer	37

IRET does not have any employment contracts or agreements with any employees or trustees. IRET would incur significant expense in order to recruit and relocate officers to its location in Minot, North Dakota.

**Environmental Liability May Result in Significant Losses**

Investments in real property create a potential for environmental liability on the part of the owner of or any mortgage lender on such real property. Under federal and state legislation, property owners are liable for cleanup expenses in connection with hazardous wastes or other hazardous substances found on their property. No assurance can be given that a substantial financial liability may not occur with respect to properties owned or acquired in the future by IRET.

It is the policy of IRET to obtain a Phase I environmental survey upon purchasing property. If the Phase I indicates any possible environmental problems, IRET's policy is to order a Phase II study which involves testing the soil and ground water for actual hazardous substances. As of the date of this prospectus, IRET is unaware of any environmental liability with respect to properties in its portfolio as discovered through a Phase I or Phase II study. By its nature, a Phase I is only a limited visual inspection of the property and review of documents related to the property. It does not involve any actual testing of soil or ground water for the presence of hazardous substances or other environmental problems. As a result, it is possible that a Phase I may fail to reveal an environmental problem.

**Competition May Negatively Impact IRET's Earnings**

Investments of the types in which IRET is interested may be purchased on a negotiated basis by many kinds of institutions, including other real estate investment trusts, private partnerships, individuals, pension funds, and banks. There are a number of other real estate investment trusts in operation, many of which are active in one or more of IRET's areas of investment. According to the National Association of Real Estate Investment Trusts (NAREIT) as of September 2001, there were 178 publicly traded real estate investment trusts and another 20 real estate investment trusts not traded on a public exchange. According to the NAREIT list, IRET is currently ranked in the middle category according to market capitalization and annual gross revenue.

All of the properties currently owned by us are located in developed areas. Many of our competitors have greater financial and other resources than we have, within the market area of each of the properties that will compete with us for tenants and development and acquisition opportunities. The number of competitive properties and real estate companies in such areas could have a material effect on (1) our ability to rent our real estate properties and the rents charged and (2) development and acquisition opportunities. The activities of these competitors could cause us to pay a higher price for a new property than we otherwise would have paid or may prevent us from purchasing a desired property at all, which could have a material adverse effect on us and our ability to make distributions to you and to pay amounts due on our debt

There are also thousands of private limited partnerships organized to invest in real estate. Investments must thus be made by IRET in competition with such other entities as well. The yields available on mortgage and other real estate investments depend upon many factors, including the supply of money available for such investments and the demand for mortgage money. The presence of the foregoing competitors increases the price for real estate assets as well as the available supply of funds to prospective borrowers from IRET. All these factors, in turn, vary in relation to many other factors such as general and local economic conditions, conditions in the construction industry, opportunities for other types of investments, international, national and local political affairs, legislation, governmental regulation, tax laws, and other factors. IRET cannot predict the effect that such factors will have on its operations.

In no market in which IRET operates does a particular competitor own or otherwise control more than 10% of the available apartment units or more than 5% of the available commercial real estate space for rent to the public.

#### **Low Trading Volume of IRET on the Nasdaq will Prevent the Timely Resale of Shares**

No assurance can be given that a purchaser of IRET shares under this offering would be able to resell such shares when desired. Effective October 17, 1997, IRET shares of beneficial interest have been traded on the National Association of Securities Dealers Automated Quotation System Small Capitalization Index (NASDAQ). Since October 17, 1997, the average daily trading volume has been 13,555 and the average monthly trading volume through July 31, 2001, has been 280,599. As a result of this low trading volume, an owner of IRET shares will encounter difficulty in selling shares of IRET in a timely manner and may incur a substantial loss.

#### **Ability of IRET's Board of Trustees to Change Policy Without Shareholder Approval**

The major policies of IRET, including its policies with respect to development, acquisitions, financing, growth, debt capitalization and distributions will be determined by the trustees. Accordingly, the trustees may amend or revoke those policies and other policies without advance notice to or the approval of shareholders.

#### **Certain Restrictions on Transfer of Shares May Result in Losses**

Provisions of the Declaration of Trust of IRET designed to enable IRET to maintain its status as a REIT, authorize IRET (i) to refuse to effect a transfer of any shares of stock of IRET to any person if such transfer would jeopardize IRET's qualification as a REIT, and (ii) to repurchase any such shares held by any such person.

These restrictions allow IRET at anytime to redeem its shares held by any shareholder at the fair market value of the shares redeemed as determined by an independent appraisal. As a result, an investor may be forced to sell their shares of stock at a loss or at a time that may cause adverse income tax consequences.

Additionally, IRET may refuse to allow a transfer or sale of its stock. As a result, an investor may be prevented

from receiving the highest price possible for their shares, buying additional shares at a lower or favorable price, or even being able to buy or sell shares at any price. The Declaration of Trust specifically provides:

"To ensure compliance with the Internal Revenue Code provision that no more than 50% of the outstanding shares may be owned by five or fewer individuals, the trustees may at any time redeem shares from any shareholder at the fair market value thereof (as determined in good faith by the trustees based on an independent appraisal of trust assets made within six months of the redemption date). Also, the trustee may refuse to transfer shares to any person whose acquisition of additional shares might, in the opinion of the trustees, violate the above requirement."

#### **IRET does not Carry Insurance Against All Possible Losses**

We carry comprehensive liability, fire, extended coverage, and rental loss insurance with respect to our properties with certain policy specifications, limits, and deductibles. No assurance can be given that such coverage will be available on acceptable terms or at an acceptable cost, or at all, in the future, or if obtained, that the limits of those policies will cover the full cost of repair or replacement of covered properties.

In addition, there may be certain extraordinary losses such as those resulting from civil unrest, terrorism, or environmental contamination that are not generally insured or fully insured against because they are either uninsurable or not economically insurable. IRET does not carry environmental insurance. Should an uninsured or underinsured loss occur to a property, we could be required to use our own funds for restoration or lose all or part of our investment in, and anticipated revenues from, the property and would continue to be obligated on any mortgage indebtedness on the property. Any such loss could have a material adverse effect on us and our ability to make distributions to you and pay amounts due on our debt.

#### **Adverse Changes in Laws May Affect Our Potential Liability Relating to the Properties and Our Operations**

Increases in real estate taxes and income, service and transfer taxes cannot always be passed through to all tenants in the form of higher rents, and may adversely affect our cash available for distribution and our ability to make distributions to you and to pay amounts due on our debt. Similarly, changes in laws increasing the potential liability for environmental conditions existing on properties or increasing the restrictions on discharges or other conditions, as well as changes in laws affecting development, construction and safety requirements, may result in significant unanticipated expenditures, which could have a material adverse effect on us and our ability to make distributions to you and pay amounts due on our debt.

In addition, future enactment of rent control or rent stabilization laws or other laws regulating multifamily housing may reduce rental revenues or increase operating costs.

#### **Potential Effect on Costs and Investment Strategy from Compliance with Laws Benefiting Disabled Persons**

A number of federal, state and local laws (including the Americans with Disabilities Act) and regulations exist that may require modifications to existing buildings or restrict certain renovations by requiring improved access to such buildings by disabled persons and may require other structural features which add to the cost of buildings under construction. Legislation or regulations adopted in the future may impose further burdens or restrictions on us with respect to improved access by disabled persons. The costs of compliance with these laws and regulations may be substantial, and limits or restrictions on construction or completion of certain renovations may limit implementation of our investment strategy in certain instances or reduce overall returns on our investments, which could have a material adverse effect on us and our ability to make distributions to you and to pay amounts due on our debt. We review our properties periodically to determine the level of compliance and, if necessary, take appropriate action to bring such properties into compliance. We believe, based on property reviews to date, that the costs of such compliance should not have a material adverse effect on us. Such conclusions are based upon currently available information and data,

and no assurance can be given that further review and analysis of our properties, or future legal interpretations or legislative changes, will not significantly increase the costs of compliance.

### **Potential Inability to Renew, Repay or Refinance Our Debt Financing**

We are subject to the normal risks associated with debt financing, including the risk that our cash flow will be insufficient to meet required payments of principal and interest, the risk that indebtedness on our properties, or unsecured indebtedness, will not be able to be renewed, repaid or refinanced when due or that the terms of any renewal or refinancing will not be as favorable as the terms of such indebtedness. If we were unable to refinance our indebtedness on acceptable terms, or at all, we might be forced to dispose of one or more of the properties on disadvantageous terms, which might result in losses to us. Such losses could have a material adverse effect on us and our ability to make distributions to you and pay amounts due on our debt.

As of July 31, 2001, \$23,288,352 or 6% of our entire debt will come due over the following 12 months.

Furthermore, if a property is mortgaged to secure payment of indebtedness and we are unable to meet mortgage payments, the mortgagee could foreclose upon the property, appoint a receiver and receive an assignment of rents and leases or pursue other remedies, all with a consequent loss of our revenues and asset value. Foreclosures could also create taxable income without accompanying cash proceeds, thereby hindering our ability to meet the REIT distribution requirements of the Code.

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### **Increase in Cost of Indebtedness Due to Rising Interest Rates**

We have incurred and expect in the future to incur indebtedness that bears interest at a variable rate. Accordingly, increases in interest rates would increase our interest costs, which could have a material adverse effect on us and our ability to make distributions to you or cause us to be in default under certain debt instruments (including our debt). In addition, an increase in market interest rates may lead holders of our common shares to demand a higher yield on their shares from distributions by us, which could adversely affect the market price for IRET Shares of Beneficial Interest.

As of July 31, 2001, of the total \$372,402,308 mortgage indebtedness outstanding, \$23,008,489 or 6.2% is subject to variable interest rate agreements. The range of interest rates on the variable rate mortgages are from 7% to 9.17%. An increase of 1% in the interest rate would collectively increase the interest payment by \$192,173 annually.

### **Potential Incurrence of Additional Debt and Related Debt Service**

We currently fund the acquisition and development of multifamily communities partially through borrowings including our line of credit as well as from other sources such as sales of properties which no longer meet our investment criteria or the contribution of property to joint ventures. We could become more highly leveraged, resulting in an increase in debt service, which could have a material adverse effect on us and our ability to make distributions and to pay amounts due on our debt and in an increased risk of default on our obligations.

For the past three years as of April 30, the total indebtedness of IRET as it relates to its total net assets has been as follows:

	<u>2001</u>	<u>2000</u>	<u>1999</u>
Total Net Assets	\$ 177,948,354	\$ 145,038,261	\$ 100,263,836
Total debt	\$ 389,086,105	\$ 287,940,038	\$ 191,229,475
Leverage percentage	219%	199%	191%

Pursuant to the governing instruments of IRET, we may increase our total debt level to 300% of our total net assets or if approved by the Board to higher level if necessary. As a result, without notice to or the approval of the shareholders, we may increase our total indebtedness as compared to total net assets by an additional 81% or \$144,758,957.00 to \$533,845,062.00.

#### **Potential Liability Under Environmental Laws**

Under various federal, state, and local laws, ordinances and regulations, a current or previous owner or operator of real estate may be liable for the costs of removal or remediation of certain hazardous or toxic substances in, on, around, or under such property. Such laws often impose such liability without regard to whether the owner or operator knew of, or was responsible for, the presence of such hazardous or toxic substances. The presence of, or failure to remediate properly, such substances may adversely affect the owner's or operator's ability to sell or rent the affected property or to borrow using such property as collateral. Persons who arrange for the disposal or treatment of hazardous or toxic substances may also be liable for the costs of removal or remediation of such substances at a disposal or treatment facility, whether or not such facility is owned or operated by such person. Certain environmental laws impose liability for release of

asbestos-containing materials into the air, and third parties may also seek recovery from owners or operators of real properties for personal injury associated with asbestos- containing materials and other hazardous or toxic substances. The operation and subsequent removal of certain underground storage tanks are also regulated by federal and state laws. In connection with the current or former ownership (direct or indirect), operation, management, development and/or control of real properties, we may be considered an owner or operator of such properties or as having arranged for the disposal or treatment of hazardous or toxic substances and, therefore, may be potentially liable for removal or remediation costs, as well as certain other costs, including governmental fines, and claims for injuries to persons and property.

Our current policy is to obtain a Phase I environmental study on each property we seek to acquire and to proceed accordingly. No assurance can be given, however, that the Phase I environmental studies or other environmental studies undertaken with respect to any of our current or future properties will reveal all or the full extent of potential environmental liabilities, that any prior owner or operator of a property did not create any material environmental condition unknown to us, that a material environmental condition does not otherwise exist as to any one or more of such properties or that environmental matters will not have a material adverse effect on us and our ability to make distributions to you and to pay amounts due on our debt. We currently carry no insurance for environmental liabilities.

Certain environmental laws impose liability on a previous owner of property to the extent that hazardous or toxic substances were present during the prior ownership period. A transfer of the property does not relieve an owner of such liability. As a result, we may have liability with respect to properties previously sold by our predecessors or us.

As of the date of this prospectus, we do not own any properties that contain know environmental liabilities.

#### **Provisions Which Could Limit a Change in Control or Deter a Takeover**

In order to maintain our qualification as a REIT, not more than 50% in value of our outstanding capital stock may be owned, actually or constructively, by five or fewer individuals as defined in the Code to include certain entities. In order to protect us against risk of losing our status as a REIT due to a concentration of ownership among our shareholders, our Trust Agreement provide, among other things, that if the Board determines, in good faith, that direct or indirect ownership of IRET Shares of Beneficial Interest has or may become concentrated to an extent that would prevent us from qualifying as a REIT, the Board may prevent the transfer or call for redemption (by lot or other means affecting one or more shareholders selected in the sole discretion of the Board) of a number of shares sufficient in the opinion of the Board to maintain or bring the direct or indirect ownership of IRET Shares of Beneficial Interest into

conformity with the requirements for maintaining REIT status.

These limitations may have the effect of preventing a change in control or takeover of us by a third-party without consent of the Board even if such an event would be in the best interests of our shareholders.

### **Tax Liabilities as a Consequence of Failure to Qualify as a REIT**

Although management believes that we are organized and are operating to qualify as a REIT under the Code, no assurance can be given that we have in fact operated or will be able to continue to operate in a manner to qualify or remain so qualified. Qualification as a REIT involves the application of highly technical and complex Code provisions for which there are only limited judicial or administrative interpretations and the determination of various factual matters and circumstances not entirely within our control. For example, in order to qualify as a REIT, at least 90% of our taxable gross income in any year must be derived from qualifying sources and we must make distributions to shareholders aggregating annually at least 90% of our REIT taxable income (excluding net capital gains). Thus, to the extent revenues from non qualifying sources such as income from third-party management represents more than 10% of our gross income in any taxable year, we will not satisfy the 90% income test and may fail to qualify as a REIT, unless certain relief provisions apply, and, even if those relief provisions apply, a tax would be imposed with respect to excess net income, any of which could have a material adverse effect on us and our ability to make distributions to you and to pay amounts due on our debt. Additionally, to the extent the Operating Partnership or certain other subsidiaries are determined to be taxable as a corporation, we would not qualify as a REIT, which could have a material adverse effect on us and our ability to make distributions to you and to pay amounts due on our debt. Finally, no assurance can be given that new legislation, new regulations, administrative interpretations or court decisions will not change the tax laws with respect to qualification as a REIT or the federal income tax consequences of such qualification.

If we fail to qualify as a REIT, we will be subject to federal income tax (including any applicable alternative minimum tax) on our taxable income at corporate rates, which would likely have a material adverse effect on us and our ability to make distributions to you and to pay amounts due on our debt. In addition, unless entitled to relief under certain statutory provisions, we would also be disqualified from treatment as a REIT for the four taxable years following the year during which qualification is lost. This treatment would reduce funds available for investment or distributions to you because of the additional tax liability to us for the year or years involved. In addition, we would no longer be required to make distributions to you. To the extent that distributions to you would have been made in anticipation of qualifying as a REIT, we might be required to borrow funds or to liquidate certain investments to pay the applicable tax.

### **Conflicts of Interest May Negatively Impact the Financial Performance of IRET**

The Trustees and management are subject to certain conflicts of interest that could adversely impact the future performance of IRET. Potential conflicts of interest include:

**Joint Ventures Between IRET and Management** - Certain officers and trustees of IRET either directly or through entities controlled by them, are now engaged, and may engage in the future, in other real estate ownership, management or development activities for their own personal accounts. Accordingly, certain conflicts of interest may arise with respect to the allocation of time and efforts of such entities and persons between their own personal activities and those of IRET. A failure by the trustees or management to allocate all of their time to IRET may adversely impact the financial performance of IRET.

As of July 31, 2001, other than ownership of IRET shares and limited partnership units of IRET Properties no employee or trustee has any ownership interest in any IRET subsidiary, real estate project or business activity. However, without notice to or the approval of the shareholders, IRET may enter into joint ventures with any of the trustees or management. As of July 31, 2001, the ownership structure of Investors Real Estate Trust was as follows:

<u>Entity</u>	<u>Owner</u>
Investors Real Estate Trust (IRET)	Publicly traded on Nasdaq with 4,673 shareholders
IRET, Inc.	100% owned by Investors Real Estate Trust (IRET)
IRET Properties	71% owned by IRET, Inc. and 29% individual limited partners
PineCone IRET, Inc.	100% owned by IRET
Miramont IRET, Inc.	100% owned by IRET
Forest Park Properties, LP	100% owned by IRET Properties
Thomasbrook Properties, LP	100% owned by IRET Properties
Dakota Hill Properties, LP	100% owned by IRET Properties
MedPark Properties, LP	100% owned by IRET Properties
7901 Properties, LP	100% owned by IRET Properties
Health Investors Business Trust	100% owned by IRET Properties
Meadow 2 Properties, LP	100% owned by IRET Properties
Ridge Oaks, LP	100% owned by IRET Properties
Minnesota Medical Investors	68% owned by IRET Properties and 32% by an unrelated investment group

**Purchase of Services or Goods from Management** - IRET is not precluded from purchasing either goods or services from the trustees or management without notice to or approval from the shareholders provided all relationships are on terms no more favorable than those IRET could obtain from other third-party providers.

As of July 31, 2001, the only business relationship between IRET and management involved trustee Steven B. Hoyt. As of July 31, 2001, IRET has contracts with Hoyt Properties, Inc. to provide management and leasing services for six office buildings located in Minnesota. The contracts can be terminated on 30 day's notice by either party without penalty. Hoyt Properties, Inc. is paid a fee equal to 5% of gross rents.

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## Front-End Fees and Costs Associated With This Offering



For the money that is being raised by this offering, there are front-end fees. A front-end fee is a cost or expense of the offering that must be paid regardless of the number of shares sold. The Declaration of Trust caps all front-end fees for organizational or sale purposes at no more than 15% of the total offering. In the present case, the total front-end fees will not be more than 9%, which is below the capped amount. The fees are capped in that under no situation shall they exceed the capped amount:

<u>Type</u>	<u>Minimum</u>	<u>Cap</u>	<u>Maximum Percentage</u>
Selling agent commission 8% of the amount sold	\$ 0	\$ 1,750,000	8.000%
Legal Fees	\$ 7,500	\$ 7,500	.034%
Advertising, Printing and Promotion Expenses	\$ 40,000	\$ 40,000	.182%
Registration Fees	\$ 10,000	\$ 10,000	.045%
Accounting Fees	\$ 1,000	\$ 1,000	.004%
	\$ 58,500	\$ 1,808,500	8.265%

### Offering Compensation

The following table sets forth the fees and other compensation which IRET is to pay in association with this offering. No officer, trustee or employee of IRET will receive any additional compensation, bonus or fees as a result of the offering other than their normal salary as listed on pages 89 through 91. Additionally, no officer, trustee or employee of IRET will be selling any shares of IRET they own as part of this offering.

<u>Item of Compensation</u>	<u>Recipient</u>	<u>Amount / Method</u>
Incentive Fees	N/A	While authorized by the Restated Declaration of Trust, no incentive fees shall be paid to anyone. This may be changed by a vote of the Trustees at anytime with incentive fees then payable for future transactions as limited by the Restated Declaration of Trust.
Broker-Dealer Fees	Selling Brokerage Firms	Eight percent or \$.70 of each share sold for a total possible commission of \$1,750,000.
Advertising, Printing and Promotion Expenses		Up to \$40,000 may be paid as compensation for advertising and promotional expenses.
Experts' Fees	Pringle & Herigstad, P.C.	\$7,500 for legal fees, plus filing fees, accounting fees and printing costs estimated to be another \$51,000.

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### Determination of Offering Price

In setting the price of the shares available for sale under this offering at \$8.75, we considered the following three factors:

First, the recent trading price on the Nasdaq Smallcap Market from May 1, 2001 to September 10, 2001. During this period of time the average high has been \$9.088, the average low \$8.85 with an average closing price of \$8.966.

Second, we attempt to achieve an annual distribution rate of 6.5% based on the selling price of new shares. As of September 17, 2001, our historical distribution rate over the prior 12 months of \$0.575 based on the goal of a 6.5% distribution yield suggests an offering price of \$8.85.

Third, we attempt to base the price for new shares as a multiple of the prior 12 months of Funds from Operations (FFO) which does not exceed 11 times the prior year's FFO. Based on fiscal 2001 FFO of \$.79 multiplied by 11 results in a suggested price of \$8.69 per share.

Based on the above three factors, we decided to set the price at \$8.75 per share.

### **Effective Date of Offering**

The offering of shares pursuant to this prospectus will last for a period of one year from the effective date on the front cover or until all shares have been sold on a first-come first-serve basis, whichever occurs first.

### **Dilution**

The book value of IRET shares of beneficial interest is substantially less than the purchase price to new shareholders under this Offering. As of July 31, 2001, the book value of the 24,261,217 shares outstanding was \$4.95 per share. Assuming all of the shares registered under this offering are sold, the estimated resulting book value will be \$5.23 per share. Thus, a purchasing shareholder paying \$8.75 per share under this offering will incur an immediate book value dilution of \$3.52 per share.

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### **Plan of Distribution**

For the sole purpose of selling the shares to be offered pursuant to this prospectus, IRET has entered into Security Sales Agreements with a number of broker/dealers who are members of the National Association of Security Dealers (NASD). There are no underwriters associated with this offering. None of the broker/dealers involved are required to take and pay for or to sell a specific number of shares. This offering shall be conducted on a best efforts basis under which a participating broker/dealer is required to take and pay for only those shares that are actually sold to the public. All shares of IRET available for sale to the public will be available for purchase through broker/dealers who have signed a selling agreement with IRET. The shares offered will only be sold for cash payable in United States Dollars. There will be no other distribution or sale of IRET shares to the public except through IRET's dividend reinvestment plan available only to current IRET shareholders. See page 86 - "Dividend Reinvestment Plan."

As of November 1, 2001, the following NASD registered broker/dealers have agreed to use their best efforts to sell the IRET shares offered under this prospectus to the public:

American Investment Services, Inc.	Investment Centers of America, Inc.
Berthel Fisher & Co.	Iron Street Securities, Inc.
Eagle One Investments, LLC	ND Capital, Inc.
Fintegra Financial Solutions	Netcap Preferred Equity, LTD.
First Montauk Securities Corp.	Okoboji Financial Services, Inc.
Garry Pierce Financial Services, LLP	Primevest Financial Services, Inc.
Huntingdon Securities Corporation	Proequities, Inc.
Inland National Securities, Inc.	Protective Group Securities
Intersecurities, Inc.	VSR Financial Services, Inc.
INVEST Financial	Sigma Financial

The material terms of the Security Sales Agreement are as follows:

- \* For each share sold and paid for, IRET will pay a commission of 8% or \$.70 per share. There will be no discounts, other compensation, commissions, finders fees or other compensation paid to any broker/dealer.
- \* Subject only to a minimum purchase of 100 shares, no broker/dealer is required to sell a minimum number of shares.
- \* There are no limits on the number of shares a particular broker/dealer may sell provided no more than the total offering of 2,500,000 shares may be sold. All sales are on a first come first serve basis according to date on which IRET receives a completed subscription agreement in its Minot, North Dakota office along with payment in full of the shares purchased.
- \* Either IRET or the broker/dealer may terminate the Security Sales Agreement at anytime without penalty or further obligation.
- \* IRET has not agreed to indemnify any broker/dealer for liability arising under the Securities Act.

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- \* Any full-time employee of a participating broker/dealer may purchase shares for their own account at the offering price of \$8.75 per share. Any such shares so acquired may not be sold, transferred, assigned, pledged or hypothecated by any person for a period of one year from the date of acquisition.
  - \* No broker/dealer has a right to nominate or elect a member to the board of trustees.

None of the broker/dealers intend to engage in any passive market making activities, stabilization or other transactions that otherwise may affect the price of the shares offered or the price of IRET on the NASDAQ.

## Who May Invest

In order to purchase shares, an investor must be a resident of one of the states listed below as well as meet the other requirements listed:

<u>State</u>	<u>Income or Net Worth Requirements</u>	<u>Minimum Purchase</u>
Montana	None	100 shares or \$875.00
Minnesota	Either individually or with a spouse has an annual gross income of at least \$60,000 during the previous calendar year, have a net worth of at least \$60,000 (exclusive of principal residence and its furnishings and automobile), and are purchasing shares for only the investors own account or retirement plan. Either individually or with a spouse have a net worth of at least \$225,000 (exclusive of the principal residence and its furnishings and automobiles), and are purchasing shares for only the investors own account or retirement plan.	100 shares or \$875.00
North Dakota	None	100 shares or \$875.00
South Dakota	None	100 shares or \$875.00

### Use of Proceeds

IRET plans to use any proceeds actually raised to fund the construction of two 73-unit apartment buildings to be located in Rochester, Minnesota and two 67-unit apartment buildings to be located in Bismarck, North Dakota.

#### Rochester

IRET purchased 15 acres of unimproved land in Rochester in 1999. The entire parcel has been zoned to allow for the construction of up to 300 apartment units. In 2000, IRET constructed one 73-unit apartment community called Sunset Trail I that was completed and opened to residents during the end of September 2000. As of July 1, 2001, Sunset Trail I was 100% occupied. The two additional communities to be constructed by IRET using the proceeds raised from this offering are designed the same as Sunset Trail I. Based on the actual costs incurred by IRET in the construction of Sunset Trail I, IRET expects to incur the following costs for the construction of the additional units:

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<u>Apartment Community</u>	<u>Location</u>	<u>Cost</u>
Sunset Trail II - 73 Units	Rochester, MN	\$ 5,300,000
Sunset Trail III - 73 Units	Rochester, MN	\$ <u>5,300,000</u>
Total		\$ 10,600,000

#### Bismarck

IRET currently owns sufficient unimproved land in Bismarck, North Dakota, which has been zoned to allow for the construction of two 67-unit apartment communities. Over the past four years, IRET has constructed three 67-unit apartment communities at the same location called Cottonwood I, II and III. As of July 1, 2001, Cottonwood I, II and III were over 98% occupied. The two new 67-unit communities to be constructed are designed the same as the previous three Cottonwood apartments. Based on the actual costs incurred by IRET, in the construction of Cottonwood I, II and III, IRET expects to incur the following construction costs:

<u>Apartment Community</u>	<u>Location</u>	<u>Cost</u>
Cottonwood IV - 67 Units	Bismarck, ND	\$ 4,700,000
Cottonwood V - 67 Units	Bismarck, ND	\$ <u>4,700,000</u>
Total		\$ 9,400,000

Assuming all the offered shares are sold and after deduction from the offering proceeds of all the front-end fees and expenses associated with the offering, IRET will have \$20,066,500 to fund the construction of the two 73-unit Rochester apartment communities and the two 67-unit Bismarck apartment communities.

	<u>Dollars</u>	<u>Percent</u>
Gross Offering Proceeds	\$ 21,875,000	100.0%
Selling Commissions	\$ -1,750,000	8.0%
Legal Fees	\$ -7,500	Less than 1% (.00034)
Advertising, Printing and Promotion Expenses	\$ -40,000	Less than 1% (.00182)
Registration Fees	\$ -10,000	Less than 1% (.00045)
Accounting Fees	\$ <u>-1,000</u>	Less than 1% (.00004)
Cash Available for Construction of Properties	\$ 20,066,500	91.735%

In the event less than all the shares offered under this prospectus are sold, IRET will not receive enough money to cover the entire estimated construction cost of \$20,000,000. Depending on the actual amount of shares sold, IRET will need to acquire additional funds from other sources.

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<u>Assumed Share Sales</u>	<u>Net Proceeds to IRET</u>	<u>Funds Needed from Other Sources After Expenses</u>
25%	\$ 5,016,625	\$ 14,983,375
50%	\$ 10,033,250	\$ 9,966,750
75%	\$ 15,049,875	\$ 4,950,125
100%	\$ 20,066,500	\$ 0

IRET intends to cover any shortfall using funds from the sources identified below:

- \* **Depreciation Revenue** - As a "Real Estate Investment Trust" under the Internal Revenue Code, IRET must distribute at least 90% of its taxable income. However, in computing taxable income, a deduction for depreciation of the buildings owned by IRET is allowed. In the Fiscal year ended April 30, 2001, this depreciation deduction was \$12,299,532. IRET is under no legal obligation to pay out depreciation revenue. The amount of this depreciation may be used by IRET to complete the construction of the apartment communities in Rochester, Minnesota and Bismarck, North Dakota.
- \* **Additional Long Term Leverage or Loans** - IRET has a policy of borrowing up to 70% of the cost of any real estate constructed or purchased. Upon completion of the two apartment buildings, IRET

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intends to place loans on the property. However, until the apartments are completed and at least 95% leased, IRET will be unable to place any financing on the project. As a result, in order to cover the full cost of the Rochester apartments, IRET may need to borrow money using its existing assets as collateral. As of July 31, 2001, the ratio of mortgage liabilities to total Trust real estate assets was \$372,402,308 of mortgage liabilities to \$596,714,969 of net real estate owned or 62.4%. Thus, as much as \$45,191,773 could be borrowed against IRET's existing real estate portfolio before reaching a debt ratio of 70%. No assurance can be given that IRET would be able to borrow this or any amount of additional money.

- \* **Credit Lines** - IRET may enter into short-term credit line borrowing agreements with banks if the need arises. As of the date of this prospectus, IRET has credit lines of \$17,500,000 with various banks. The available credit lines and the amount available to IRET is as follows as of July 31, 2001:

<u>Bank</u>	<u>Credit Line</u>	<u>Amount Outstanding</u>	<u>Amount Available</u>	<u>Interest Rate</u>	<u>Maturity Date</u>
First Western Bank & Trust - Minot, ND	\$ 5,000,000	\$ 0	\$ 5,000,000	6.5%	09/15/02
First International Bank & Trust - Minot, ND	\$ 3,500,000	\$ 0	\$ 3,500,000	6.5%	10/15/02
Bremer Bank	\$ 10,000,000	\$ 0	\$ 10,000,000	6.5%	08/01/02
Totals	\$ 17,500,000	\$ 0	\$ 17,500,000		

No assurance can be given that these line of credit borrowing arrangements will be available to IRET beyond the expiration term listed.

### Selected Financial Data for IRET for Five Years Ended April 30

	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>
Consolidated Income Statement Data					
Revenue	\$ 75,767,150	\$ 55,445,193	\$ 39,927,262	\$ 32,407,545	\$ 23,833,981
Income before gain/loss on properties and minority interest	\$ 10,187,812	\$ 8,548,558	\$ 6,401,676	\$ 4,691,198	\$ 3,499,443
Gain on repossession/ Sale of properties	\$ 601,605	\$ 1,754,496	\$ 1,947,184	\$ 465,499	\$ 398,424
Minority interest of portion of operating partnership income	\$ -2,095,177	\$ -1,495,209	\$ -744,725	\$ -141,788	\$ -18
Net income	\$ 8,694,240	\$ 8,807,845	\$ 7,604,135	\$ 5,014,909	\$ 3,897,849
Consolidated Balance Sheet Data					
Total real estate investments	\$548,580,418	\$418,216,516	\$280,311,442	\$213,211,369	\$177,891,168
Total assets	\$570,322,124	\$432,978,299	\$291,493,311	\$224,718,514	\$186,993,943
Shareholders' equity	\$118,945,160	\$109,920,591	\$ 85,783,294	\$ 68,152,626	\$ 59,997,619
Per Share					
Net Income	\$ .38	\$ .42	\$ .44	\$ .32	\$ .28
Dividends	\$ .55	\$ .51	\$ .47	\$ .42	\$ .39
Calendar Year	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>
Tax status of dividend					

Capital gain	.72%	30.3%	6.3%	2.9%	21.0%
Ordinary income	86.76%	69.7%	76.0%	97.1%	79.0%
Return of capital	12.52%	0%	17.7%	0.0%	0.0%

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## **Management's Discussion and Analysis of Financial Conditions and Results of Operations**

### **General**

IRET has operated as a "real estate investment trust" under Sections 856-858 of the Internal Revenue Code since its formation in 1970 and is in the business of owning income-producing real estate investments, both residential and commercial.

On February 1, 1997, IRET restructured itself as an Umbrella Partnership Real Estate Investment Trust (UPREIT). IRET, through its wholly owned subsidiary, IRET, Inc., is the general partner of IRET Properties, a North Dakota limited partnership (the "Operating Partnership").

On July 1, 2000, IRET became "self-advised" as a result of the acquisition of the advisory business and assets of Odell-Wentz and Associates, L.L.C. Prior to that date, Odell-Wentz had been the advisor to the Trust and had furnished office space, employees, and equipment to conduct all of the day-to-day operations of IRET. The Operating Partnership issued 255,000 of its limited partnership units to Odell-Wentz and Associates, L.L.C. in exchange for the advisory business and assets. The valuation of the advisory business and assets of \$2,083,350 was determined by an independent appraisal of the business and assets by a certified public accounting firm not otherwise employed by either IRET or the advisory company. All employees of the advisory company became employees of IRET Properties on July 1, 2000, with the exception of Roger R. Odell who retired.

No other material change in IRET's business is contemplated at this time.

The following discussion and analysis should be read in conjunction with the attached audited financial statements prepared by Brady, Martz & Associates, P.C. of Minot, North Dakota, certified public accountants, which firm and its predecessors have served as the auditor for IRET since its inception in 1970.

Certain matters included in this discussion are forward-looking statements within the meaning of federal securities laws. Although IRET believes that the expectations reflected in such forward-looking statements are based on reasonable assumptions, it can give no assurance that the expectations expressed will actually be achieved. Many factors may cause actual results to differ materially from IRET's current expectations, including general economic conditions, local real estate conditions, the general level of interest rates and the availability of financing, timely completion and lease-up of properties under construction, and various other economic risks inherent in the business of owning and operating investment real estate.

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### **Results of Operations - Three-Month Periods Ended July 31, 2001 and July 31, 2000**

**Revenues**

Total revenues of the Operating Partnership for the first quarter of Fiscal 2002 were \$21,780,094, compared to \$17,431,644 received in the first quarter of the prior fiscal year. This is an increase of \$4,348,450 or 25%. This increase is attributable to the addition of new properties to IRET's investment portfolio.

**Capital Gain Income**

The Operating Partnership realized capital gain income of \$307,934 during the first quarter of Fiscal 2002. This resulted from the sale of the 36-unit Sunchase Apartment property in Fargo, North Dakota and the sale of the GNMA investment portfolio, resulting in realized gains of \$296,408 and \$11,526 respectively. No capital gain income was realized in the first quarter of the prior fiscal year.

**Expenses and Net Income**

The following shows the changes in revenues, operating expenses, interest, and depreciation for the three-month period ending July 31, 2001 as compared to the three-month period ended July 31, 2000:

<u>Three months ended July 31,</u>	<u>2001</u>	<u>2000</u>
REVENUE		
Real Estate Rentals*	\$ 21,568,381	\$ 17,291,976
Interest, Discounts and Fees	\$ <u>211,713</u>	\$ <u>139,668</u>
Total Revenue	\$ <u>21,780,094</u>	\$ <u>17,431,644</u>
OPERATING EXPENSE		
Interest	\$ 7,198,378	\$ 5,677,556
Depreciation	\$ 3,656,762	\$ 2,656,209
Utilities and Maintenance	\$ 2,971,809	\$ 2,613,195
Taxes	\$ 2,115,630	\$ 1,701,654
Insurance	\$ 314,685	\$ 167,280
Property Management Expenses	\$ 1,630,079	\$ 1,410,502
Administrative Expense & Trustee Services	\$ 386,307	\$ 463,960
Operating Expenses	\$ 126,622	\$ 80,477
Amortization	\$ <u>128,956</u>	\$ <u>95,680</u>
Total Expenses	\$ <u>18,529,228</u>	\$ <u>14,866,513</u>
INCOME BEFORE GAIN/LOSS ON PROPERTIES AND MINORITY INTEREST		
	\$ 3,250,866	\$ 2,565,131
GAIN ON SALE OF INVESTMENT MINORITY INTEREST OTHER PARTNERSHIP	\$ 307,934	\$ 0
MINORITY INTEREST PORTION OF OPERATING PARTNERSHIP INCOME	\$ -56,755	\$ 0
	\$ <u>-726,318</u>	\$ <u>-425,667</u>
NET INCOME	\$ <u>2,775,727</u>	\$ <u>2,139,464</u>

\* Includes \$333,295 and \$354,194 for 3 months ended 07/31/01 and 07/31/00 respectively of "straight-line rents." Straight-line rents are the amounts to be collected in future years from tenants occupying commercial properties under



leases, which provide for periodic increases in rents. It is determined by dividing the total rent payable for the lease term by the total rental periods and allocating the resulting average rent to the period covered by the report.

The above described changes result primarily from the addition of new real estate assets to IRET's portfolio. The increase in insurance costs also resulted from an increase in the general level of premiums for property casualty insurance. The decline in administrative expenses also resulted from the acquisition of the advisory company by IRET on July 1, 2000, because the direct expenses for employee salaries and other operating costs proved to be less than the previous percentage fee payable under the advisory contract.

### Comparison of Residential and Commercial Properties

The following is a comparison of the net operating income from the two types of real estate investments owned by IRET - residential and commercial - for the three-month periods ending July 31, 2001, and 2000:

#### Net Real Estate Operating Income

Three Months Ended	7/31/01	7/31/00	Percent Change
Segment			
Residential	\$ 3,902,477	\$ 3,789,073	2.9%
Commercial	\$ 3,612,984	\$ 2,101,107	71.9%
Total	\$ 7,515,461	\$ 5,890,180	27.5%

The growth in the two operating segments resulted from the acquisition of properties during Fiscal 2002. The increase in net operating income for commercial properties resulted from the investment of \$110,199,692 to acquire new commercial properties during the prior fiscal year.

### Occupancy Rates

The following is a comparison of occupancy rates for stabilized properties (actual rent as a percentage of scheduled rent) for the three-month periods ended July 31, 2001 and 2000:

Three Months Ended	7/31/01	7/31/00	Percent Change
Segment			
Residential	94.70%	93.59%	1.1%
Commercial	98.77%	98.48%	.2%

## Property Acquisitions and Dispositions

During the three-month period ended July 31, 2001, the Operating Partnership acquired one commercial investment:

<u>Property</u>	<u>Acquisition Cost</u>
15,217 sq ft Cottage Grove Retail Strip Center, Cottage Grove, MN	\$ 1,101,550

The 36-Unit Sunchase apartment complex in Fargo, North Dakota was sold during the first quarter of Fiscal 2001 at a gain of \$296,409.

On July 31, 2001, the Operating Partnership owned 62 apartment communities with a total of 7,833 apartment units and 61 commercial properties totaling 2,528,735 square feet.

## Funds From Operations

IRET considers Funds From Operations ("FFO") a useful measure of performance for an equity REIT. FFO is defined as net income available to shareholders determined in accordance with generally accepted accounting principles (GAAP), excluding gains (or losses) from debt restructuring and sales of property, plus depreciation of real estate assets, and after adjustment for unconsolidated partnerships and joint ventures. IRET uses the National Association of Real Estate Investment Trusts ("NAREIT") definition of FFO as amended by NAREIT to be effective January 1, 2000. FFO for any period means the net income of the company for such period, excluding gains or losses from debt restructuring and sales of property, and plus depreciation and amortization of real estate assets in IRET's investment portfolio, and after adjustment for unconsolidated partnerships and joint ventures, all determined on a consistent basis in accordance with GAAP.

FFO presented herein is not necessarily comparable to FFO presented by other real estate companies because not all real estate companies use the same definition.

FFO should not be considered as an alternative to net income (determined in accordance with GAAP) as a measure of IRET's liquidity, nor is it necessarily indicative of sufficient cash flow to fund all of IRET's needs or its ability to service indebtedness or make distributions.

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Funds From Operations for the Operating Partnership for the three-month period ended July 31, 2001, increased to \$6,899,059, compared to \$5,221,340 for the first quarter of Fiscal 2000, an increase of 32.1%.

Calculations of Funds From Operations for the Operating Partnership are as follows:

<u>Three Months Ended</u>	<u>7/31/01</u>	<u>7/31/00</u>	<u>Percent Change</u>
Net Income available to IRET shareholders and unitholders from operations and capital gains	\$ 3,558,800	\$ 2,565,131	38.7%
Less gain from property sales	\$ 307,934	0	--%
Operating Income	\$ 3,250,866	\$ 2,565,131	26.7%
Plus real estate depreciation and amortization (1)	\$ 3,648,193	\$ 2,656,209	37.7%

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Funds From Operations	\$ 6,899,059	\$ 5,221,340	32.1%
Weighted average shares and units outstanding -basic and diluted (2)	31,466,261	27,166,617	15.8%
Distributions paid to Shareholders/Unitholders (3)	\$ 4,577,961	\$ 3,602,278	27.1%

- (1) Depreciation on office equipment and other assets used by the Company are excluded. Amortization of financing and other expenses are excluded, except for amortization of leasing commissions which are included.
- (2) Limited Partnership Units of the Operating Partnership are exchangeable for Shares of Beneficial Interest of IRET only on a one-for-one basis.
- (3) Distributions made equally on shares and units.

### Dividends

The following dividends were paid during the first quarters of Fiscal Years 2001 and 2000:

Date	2001	2000	Percent Change
July 1	\$.145	\$.1325	9.4%

The Board of Trustees of IRET have declared a dividend of \$.1475 per share payable October 1, 2001 to shareholders of record at the close of business on September 14, 2001.

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### Liquidity and Capital Resources

The important changes in IRET's balance sheet during the first quarter of Fiscal 2002 were:

**\* Increase in Real Estate Owned**

Real estate owned increased to \$596,714,969 from the April 30, 2001 figure of \$591,636,468. This increase resulted from the acquisition of the Cottage Grove Retail Strip Center for \$1,101,550 and the ongoing costs of construction of the 73-unit Sunset Trail II apartment building in Rochester, MN and the final construction costs for the 27-unit Meadows III apartment building in Jamestown, ND.

**\* Increase in Mortgage Loans Receivable**

Mortgage loans receivable increased to \$4,633,400 from \$1,037,095 at the beginning of the quarter. This increase resulted primarily from the \$3,200,000 short-term loan to Mankato Plaza Associates.

**\* Increase in Cash and Marketable Securities**

Cash on hand on July 31, 2001 was \$13,309,576 compared to \$6,356,063 at the beginning of the three-month period. This increase resulted from the proceeds of refinancing existing mortgages as well as the sale of investment certificates. Marketable securities declined to \$696,609 at the end of the quarter from the \$3,012,113 carrying value of marketable securities on April 30, 2001. This decline resulted from the sale of the GNMA securities during the first quarter.

**\* Increase in Mortgages Payable**