

INVESTORS REAL ESTATE TRUST

Form 10-Q/A

December 23, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C.

20549

Form 10-Q/A

(Amendment No. 1)

Quarterly Report Pursuant to Section 13 or 15(d)

of the Securities Exchange Act of 1934

For Quarter Ended October 31, 2014

Commission File Number 0-14851

INVESTORS REAL ESTATE TRUST

(Exact name of registrant as specified in its charter)

North Dakota 45-0311232

(State or other jurisdiction of (I.R.S. Employer Identification No.)

incorporation or organization)

1400 31<sup>st</sup> Avenue SW, Suite 60

Post Office Box 1988

Minot, ND 58702-1988

(Address of principal executive offices) (Zip code)

(701) 837-4738

(Registrant's telephone number, including area code)

N/A

(Former name, former address, and former fiscal year, if changed since last report.)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to the filing requirements for at least the past 90 days.

Yes R No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes R No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer R Accelerated filer

Non-accelerated filer  Smaller Reporting Company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No R

Registrant is a North Dakota Real Estate Investment Trust. As of November 20, 2014, it had 120,257,746 common shares of beneficial interest outstanding.

## EXPLANATORY NOTE

Investors Real Estate Trust ("IRET") filed its Quarterly Report on Form 10-Q for the quarter ended October 31, 2014 (the "Original Filing") with the SEC on December 10, 2014. IRET is filing this Amendment No. 1 to the Original Filing solely to correct amounts reported in the "Annualized Base Rent of Expiring Leases at Expiration" and "Percentage of Total Commercial Segments Annualized Base Rent" columns of the Lease Expirations as of October 31, 2014 table located in the Original Filing on page 46 under Part I, Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations. The errors in the Original Filing were confined to the Lease Expirations table and had no effect on any other reported information; however, pursuant to Rule 12b-15 under the Securities Exchange Act of 1934, as amended, IRET has set forth in this amendment Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations in its entirety, as amended and restated. IRET is not amending or revising any other part of the Original Filing. There is no amendment or restatement of any of the financial statements in the Original Filing. This amendment is presented as of the filing date of the Original Filing and does not reflect events occurring after that date and does not modify or update disclosures in any way other than as required to reflect the corrections described above.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with the unaudited condensed consolidated financial statements included in this report, as well as the Company's audited financial statements for the fiscal year ended April 30, 2014, which are included in the Company's Form 10-K filed with the SEC on June 30, 2014. Forward Looking Statements. Certain matters included in this discussion are forward looking statements within the meaning of the federal securities laws. Although we believe that the expectations reflected in the following statements are based on reasonable assumptions, we can give no assurance that the expectations expressed will actually be achieved. Many factors may cause actual results to differ materially from our current expectations, including general economic conditions, local real estate conditions, the general level of interest rates and the availability of financing and various other economic risks inherent in the business of owning and operating investment real estate.

### Overview

IRET is a self-advised equity REIT engaged in owning and operating income-producing real estate properties. Our investments include multi-family residential properties and commercial properties located primarily in the upper Midwest states of Minnesota and North Dakota. Our properties are diversified by type and location. As of October 31, 2014, our real estate portfolio consisted of 96 multi-family residential properties containing 11,292 apartment units and having a total real estate investment amount net of accumulated depreciation of \$681.0 million, and 161 commercial properties containing approximately 9.9 million square feet of leasable space and having a total real estate investment amount net of accumulated depreciation of \$906.2 million.

Our primary source of income and cash is rents associated with multi-family residential and commercial leases. Our business objective is to increase shareholder value by employing a disciplined investment strategy. This strategy is focused on growing assets in desired geographical markets, achieving diversification by property type and location, and adhering to targeted returns in acquiring properties. We have paid quarterly distributions continuously since our first distribution in 1971.

### Critical Accounting Policies

In preparing the condensed consolidated financial statements management has made estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates. A summary of the Company's critical accounting policies is included in the Company's Form 10-K for the fiscal year ended April 30, 2014, filed with the SEC on June 30, 2014, in Management's Discussion and Analysis of Financial Condition and Results of Operations. There have been no significant changes to those policies during the three months ended October 31, 2014.

### Significant Events and Transactions during the Three Months Ended October 31, 2014 and 2013

Summarized below are the Company's significant transactions and events during the second quarters of fiscal years 2015 and 2014:

Three Months Ended October 31, 2014

An increase in the commitment amount under the Company's secured line of credit with First International Bank and Trust as lead bank and lender, from \$75.0 million to \$90.0 million.

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The acquisition of a 68-unit multi-family residential property in Bismarck, North Dakota for a purchase price of \$8.5 million, and a parcel of vacant land in Monticello, Minnesota, for a purchase price of \$1.6 million.

The disposition of an office property in Golden Valley, Minnesota; a retail property in Kalispell, Montana; and an apartment property in St. Cloud, Minnesota, for sales prices totaling \$10.9 million.

Three Months Ended October 31, 2013

The acquisition of a multi-family residential property in Sartell, Minnesota, for approximately \$2.8 million, adding 24 units to the Company's multi-family residential portfolio.

The acquisition of a senior housing property with and associated parcel of unimproved land in Sartell, Minnesota, for approximately \$12.4 million.

The acquisition of a multi-family residential property in Grand Forks, North Dakota, for approximately \$10.6 million, adding 96 units to the Company's multi-family residential portfolio.

The disposition of three office properties and five industrial properties for a total sales price of approximately \$47.4 million.

The commencement of construction of the Company's 165-unit Arcata Apartments project in Golden Valley, Minnesota.

The commencement of construction of the RED 20 project in northeast Minneapolis, Minnesota, with 130 apartment units and approximately 10,000 square feet of commercial space, of which project the Company owns approximately 58.6%, with the remainder owned by the Company's joint venture partner.

The commencement of construction of the Company's 251-unit Cardinal Point Apartments project in Grand Forks, North Dakota.

The execution of a Sales Agreement with Robert W. Baird & Co. Incorporated, under which the Company may from time to time offer and sell its common shares of beneficial interest having an aggregate gross sales price of up to \$75.0 million, pursuant to an at-the-market (ATM) program.

#### Market Conditions and Outlook

During the second quarter of fiscal year 2015, continued high occupancy levels in the Company's multi-family residential portfolio allowed the Company to implement selected rent increases, and the Company expects to see continued favorable results in this segment in the remainder of fiscal year 2015. Demand was strong for the approximately 227 apartment units the Company placed in service during the quarter, at three joint venture multi-family residential projects: the Commons at Southgate property in Minot, North Dakota, Red 20 in Minneapolis, Minnesota, and Renaissance Heights in Williston, North Dakota. However, the Company's ability to maintain occupancy levels and selectively raise rents remains dependent on continued healthy employment and wage growth. The Company also continues to observe considerable multi-family development activity in the Company's markets, and as this new construction is completed and leased, the Company will experience increased competition for residents.

The Company's office segment, mostly concentrated in Minnesota, continued to be affected by a number of adverse macro conditions. Demand for office space continues to be limited, with space absorption in the Minneapolis market in particular concentrated in prime locations, and suburban office properties continuing to lag in terms of occupancy. Businesses appear to be maintaining their goal of increasing the density of their work spaces by placing more employees in less total square footage, and downsizing upon lease renewals. The Company expects this erosion in demand for office space to continue, which we expect will impede increases on rental rates in our office portfolio. As a result, although the Company has experienced some modest growth in occupancy levels during the second quarter of fiscal year 2015 compared to the second quarter of fiscal year 2014, on an all-properties basis, the Company continues to expect a slow and uneven recovery in its office segment.

The Company's healthcare segment consists of medical office properties and senior housing facilities. The medical office sector remains stable with modest increases in both occupancy and rents. The Company's senior housing assets continue to benefit from the strengthening recovery in the housing market, as occupancy trends are closely aligned with the ability of seniors to sell their homes in anticipation of moving to a senior care facility.

Both the industrial and retail property markets continue to show signs of recovery. The Company's industrial properties are located primarily in the Minneapolis market, and all of these Minneapolis properties are 100% leased. The demand for bulk warehouse and manufacturing space in the Company's markets is strong, with rents generally rising. The retail recovery is evident in regard to the Company's Minneapolis-metro and grocery-anchored retail

properties, which are performing well. Outstate locations, however, continue to experience less demand, with the recession-driven contraction not yet fully reversed.

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The Company plans to continue in the remainder of fiscal year 2015 its disposition of assets in non-core markets, particularly office, industrial and retail segment assets, and intends to use the proceeds from these dispositions to continue portfolio deleveraging and for developing and acquiring high-quality assets in the Company's multi-family and healthcare segments.

#### Same-store and Non-same-store Properties

Throughout this Quarterly Report on Form 10-Q, we have provided certain information on a same-store and non-same-store properties basis. Information provided on a same-store properties basis includes the results of properties that we have owned and operated for the entirety of both periods being compared (except for properties for which significant redevelopment or expansion occurred during either of the periods being compared, and properties sold or classified as held for sale), and which, in the case of development or re-development properties, have achieved a target level of occupancy of 90% for multi-family residential properties and 85% for office, healthcare, industrial and retail properties.

For the comparison of the three and six months ended October 31, 2014 and 2013, all or a portion of 31 properties were non-same-store, of which non-same-store properties 9 were redevelopment or in-service development properties. While there are judgments to be made regarding changes in designation, we typically remove properties from same-store to non-same-store when redevelopment has or is expected to have a significant impact on property net operating income within the fiscal year. Acquisitions are moved to same-store once we have owned the property for the entirety of comparable periods and the property is not under significant redevelopment or expansion. Our development projects in progress are not included in our non-same-store properties category until they are placed in-service, which occurs upon the substantial completion of a commercial property, and upon receipt of a certificate of occupancy, in the case of a multi-family residential development project. They are then subsequently moved from non-same-store to same-store when the property has been in-service for the entirety of both periods being compared and has reached the target level of occupancy specified above.

## RESULTS OF OPERATIONS

Consolidated Results of Operations for the Three and Six Months Ended October 31, 2014 and 2013

The discussion that follows is based on our consolidated results of operations for the three and six months ended October 31, 2014 and 2013.

	(in thousands, except percentages)							
	Three Months Ended				Six Months Ended			
	October 31		2014 vs 2013		October 31		2014 vs 2013	
2014	2013	\$	%	2014	2013	\$	%	
		Change	Change			Change	Change	
Real estate rentals	\$58,835	\$54,477	\$4,358	8.0%	\$115,961	\$108,100	\$7,861	7.3%
Tenant reimbursement	11,207	11,295	(88)	(0.8)%	21,918	22,770	(852)	(3.7)%
TRS senior housing revenue	843	0	843	n/a	1,636	0	1,636	n/a
<b>TOTAL REVENUE</b>	<b>70,885</b>	<b>65,772</b>	<b>5,113</b>	<b>7.8%</b>	<b>139,515</b>	<b>130,870</b>	<b>8,645</b>	<b>6.6%</b>
Depreciation/amortization related to real estate investments	16,828	16,367	461	2.8%	33,012	34,423	(1,411)	(4.1)%
Utilities	5,093	5,208	(115)	(2.2)%	9,774	10,131	(357)	(3.5)%
Maintenance	7,828	7,162	666	9.3%	15,592	14,891	701	4.7%
Real estate taxes	8,266	8,361	(95)	(1.1)%	16,767	16,736	31	0.2%
Insurance	1,345	1,413	(68)	(4.8)%	3,081	2,714	367	13.5%
Property management expenses	4,355	4,184	171	4.1%	8,985	8,319	666	8.0%
Other property expenses	350	3	347	11566.7%	556	180	376	208.9%
TRS senior housing expenses	725	0	725	n/a	1,418	0	1,418	n/a
General and administrative	3,468	3,205	263	8.2%	7,744	6,637	1,107	16.7%
Amortization related to non-real estate investments	840	800	40	5.0%	1,712	1,744	(32)	(1.8)%
Impairment of real estate investments	3,245	0	3,245	n/a	5,565	0	5,565	n/a
<b>TOTAL EXPENSES</b>	<b>52,343</b>	<b>46,703</b>	<b>5,640</b>	<b>12.1%</b>	<b>104,206</b>	<b>95,775</b>	<b>8,431</b>	<b>8.8%</b>
Gain on involuntary conversion	0	0	0	n/a	0	966	(966)	(100.0)%
Operating income	18,542	19,069	(527)	(2.8)%	35,309	36,061	(752)	(2.1)%
Interest expense	(14,599)	(14,799)	200	(1.4)%	(29,263)	(29,395)	132	(0.4)%
Interest income	560	585	(25)	(4.3)%	1,120	773	347	44.9%
Other income	136	67	69	103.0%	267	89	178	200.0%
Income before gain (loss) on sale of real estate and other investments and income from discontinued operations	4,639	4,922	(283)	(5.7)%	7,433	7,528	(95)	(1.3)%
Gain (loss) on sale of real estate and other investments	1,231	0	1,231	n/a	(1,762)	0	(1,762)	n/a
Income from continuing operations	5,870	4,922	948	19.3%	5,671	7,528	(1,857)	(24.7)%
Income from discontinued operations	0	5,375	(5,375)	(100.0)%	0	5,985	(5,985)	(100.0)%
<b>NET INCOME</b>	<b>5,870</b>	<b>10,297</b>	<b>(4,427)</b>	<b>(43.0)%</b>	<b>5,671</b>	<b>13,513</b>	<b>(7,842)</b>	<b>(58.0)%</b>
Net (income) loss attributable to noncontrolling interests – Operating Partnership	(363)	(1,226)	863	(70.4)%	39	(1,276)	1,315	(103.1)%
Net income attributable to noncontrolling interests – consolidated real estate entities	(393)	(284)	(109)	38.4%	(747)	(372)	(375)	100.8%
Net income attributable to Investors Real Estate Trust	5,114	8,787	(3,673)	(41.8)%	4,963	11,865	(6,902)	(58.2)%
Dividends to preferred shareholders	(2,878)	(2,878)	0	0.0%	(5,757)	(5,757)	0	0.0%
	\$2,236	\$5,909	(3,673)	(62.2)%	\$(794)	\$6,108	(6,902)	(113.0)%

NET INCOME (LOSS) AVAILABLE  
TO COMMON SHAREHOLDERS

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Revenues. Revenues for the three months ended October 31, 2014 were \$70.9 million compared to \$65.8 million in the three months ended October 31, 2013, an increase of \$5.1 million or 7.8%. The increase in revenue for the three months ended October 31, 2014 resulted both from properties acquired and development projects placed in service in Fiscal 2015 and 2014 and from same-store properties, as shown in the table below.

	(in thousands)
	Increase in Total Revenue Three Months ended October 31, 2014
Rent in Fiscal 2015 primarily from properties acquired and development projects placed in service in Fiscal 2015	\$ 1,218
Rent in Fiscal 2015 primarily from properties acquired and development projects placed in service in Fiscal 2014 in excess of that received in Fiscal 2014 from the same properties	2,241
Increase in rent on same-store properties <sup>(1)</sup>	811
TRS senior housing revenue in excess of that received in Fiscal 2014 <sup>(2)</sup>	843
Net increase in total revenue	\$ 5,113

(1) See analysis of NOI by segment on pages 37-41 of the MD&A for additional information.

(2) See discussion in TRS Senior Housing Expenses paragraph below.

Revenues for the six months ended October 31, 2014 were \$139.5 million compared to \$130.9 million in the six months ended October 31, 2013, an increase of \$8.6 million or 6.6%. The increase in revenue for the six months ended October 31, 2014 resulted both from properties acquired and development projects placed in service in Fiscal 2015 and 2014 and from same-store properties, as shown in the table below.

	(in thousands)
	Increase in Total Revenue Six Months ended October 31, 2014
Rent in Fiscal 2015 primarily from properties acquired and development projects placed in service in Fiscal 2015	\$ 1,726
Rent in Fiscal 2015 primarily from properties acquired and development projects placed in service in Fiscal 2014 in excess of that received in Fiscal 2014 from the same properties	4,330
Increase in rent on same-store properties <sup>(1)</sup>	953
TRS senior housing revenue in excess of that received in Fiscal 2014 <sup>(2)</sup>	1,636
Net increase in total revenue	\$ 8,645

(1) See analysis of NOI by segment on pages 37-41 of the MD&A for additional information.

(2) See discussion in TRS Senior Housing Expenses paragraph below.

Depreciation/Amortization Related to Real Estate Investments. Depreciation/amortization related to real estate investments increased by 2.8% to \$16.8 million in the second quarter of fiscal year 2015, compared to \$16.4 million in

the same period of the prior fiscal year. This increase was primarily attributable to the addition of depreciable assets from acquisitions, development projects placed in service, capital improvements and tenant improvements.

Depreciation/amortization related to real estate investments decreased by 4.1% to \$33.0 million in the six months ended October 31, 2014, compared to \$34.4 million in the same period of the prior fiscal year. This decrease was primarily attributable to a change in the lives of several intangible assets due to a change in lease terms in the first quarter of fiscal year 2014.

Utilities. Utilities decreased by 2.2% to \$5.1 million in the second quarter of fiscal year 2015, compared to \$5.2 million in the same period of the prior fiscal year. Same-store properties realized a decrease of \$214,000 which was primarily attributable to a decrease in utility rates. This decrease was offset by an increase of \$99,000 attributable to the addition of new income producing real estate properties.

Utilities decreased by 3.5% to \$9.8 million in the six months ended October 31, 2014 compared to \$10.1 million in the same period of the prior fiscal year. Same-store properties realized a decrease of \$549,000 which was primarily attributable to a decrease in utility rates. This decrease was offset by an increase of \$192,000 attributable to the addition of new income producing real estate properties.

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**Maintenance.** Maintenance expenses increased by 9.3% to \$7.8 million in the second quarter of fiscal year 2015, compared to \$7.2 million in the same period of the prior fiscal year. An increase of \$476,000 was attributable to more general maintenance items being completed at same-store properties compared to the prior year while an increase of \$190,000 was attributable to the addition of new income producing real estate properties.

Maintenance expenses increased by 4.7% to \$15.6 million in the six months ended October 31, 2014 compared to \$14.9 million in the same period of the prior fiscal year. An increase of \$408,000 was attributable to more general maintenance items being completed at same-store properties compared to the prior year while an increase of \$293,000 was attributable to the addition of new income producing real estate properties.

**Real Estate Taxes.** Real estate taxes decreased by 1.1% to \$8.3 million in the second quarter of fiscal year 2015, compared to \$8.4 million in the same period of the prior fiscal year. A decrease of \$76,000 was realized at same-store properties compared to the prior year while a decrease of \$19,000 was attributable to the addition of new income-producing real estate properties.

Real estate taxes increased by 0.2% to \$16.8 million in the six months ended October 31, 2014 compared to \$16.7 million in the same period of the prior fiscal year. An increase of \$170,000 was attributable to the addition of new income-producing real estate properties while same-store properties realized a decrease of \$139,000 compared to the prior year.

**Insurance.** Insurance expense decreased by 4.8% to \$1.3 million in the second quarter of fiscal year 2015, compared to \$1.4 million in the same period of the prior fiscal year. Increased deductibles paid on insurance claims at same-store properties accounted for a decrease of \$298,000 while insurance premiums increased by \$149,000 when compared to the prior year. An increase of \$81,000 was attributable to the addition of new income-producing real estate properties. Insurance expense increased by 13.5% to \$3.1 million in the six months ended October 31, 2014 compared to \$2.7 million in the same period of the prior fiscal year. Approximately \$294,000 of the increase was attributable to increased insurance premiums at same-store properties while deductibles paid on insurance claims decreased by \$80,000 when compared to the prior year. The addition of new income-producing real estate properties accounted for an increase of \$153,000.

**Property Management Expenses.** Property management expenses increased by 4.1% to \$4.4 million in the first quarter of fiscal year 2015, compared to \$4.2 million in the same period of the prior fiscal year. An increase of \$184,000 was attributable to the addition of new income-producing real estate properties while same-store properties realized a decrease of \$13,000 compared to the prior year.

Property management expenses increased by 8.0% to \$9.0 million in the six months ended October 31, 2014 compared to \$8.3 million in the same period of the prior fiscal year. An increase of \$251,000 was attributable to internal property management expenses at same-store properties while the addition of new income-producing real estate properties accounted for an increase of \$415,000.

**Other Property Expenses.** Other property expense, consisting of bad debt provision expense, increased to approximately \$350,000 in the second quarter of fiscal year 2015, compared to approximately \$3,000 in the same period of the prior fiscal year. Other property expense increased to approximately \$556,000 in the six months ended October 31, 2014, compared to approximately \$180,000 in the same period of the prior fiscal year. The increase for both the three and six months is primarily due to an increase in the provision for bad debt.

**TRS Senior Housing Expenses.** The Company has one TRS, acquired during the second quarter of fiscal year 2014, which is the tenant in the Company's Legends at Heritage Place senior housing facility. Property management expenses for the Heritage Place property are paid by the TRS, as the tenant in the property, and revenue from the Heritage Place facility is shown as TRS senior housing revenue on the Condensed Consolidated Statements of Operations. TRS senior housing expense was approximately \$725,000 and \$1.4 million, respectively, in the three and six months ended October 31, 2014. The Company had no TRS senior housing expenses in the same periods of the prior fiscal year.

**General and Administrative.** General and administrative expenses increased by 8.2% to \$3.5 million in the second quarter of fiscal year 2015, compared to \$3.2 million in the same period of the prior fiscal year. This change was primarily due to an increase of approximately \$299,000 in share-based compensation expense, partially offset by decreases in other expenses.

General and administrative expenses increased by 16.7% to \$7.7 million in the six months ended October 31, 2014, compared to \$6.6 million in the same period of the prior fiscal year. This change was primarily due to an increase of approximately \$1.1 million in share-based compensation expense.

**Amortization Related to Non-Real Estate Investments.** Amortization related to non-real estate investments remained consistent in the three and six months ended October 31, 2014, compared to the same periods of the prior fiscal year.

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**Impairment of Real Estate Investments.** During the three months ended October 31, 2014, the Company incurred a loss of \$3.2 million due to the impairment of two office properties. During the six months ended October 31, 2014, the Company incurred a loss of \$5.6 million dollars due to the impairment of three office properties and a retail property. No impairment from continuing operations was recognized in the three and six months ended October 31, 2013. See Note 2 of the Notes to the Condensed Consolidated Financial Statements in this report for additional information.

**Gain on Involuntary Conversion.** During the six months ended October 31, 2013, the Company recognized a gain on involuntary conversion of \$966,000. No gain on involuntary conversion was recognized in the three or six months ended October 31, 2014. See Note 2 of the Notes to the Condensed Consolidated Financial Statements in this report for additional information.

**Interest Expense.** Components of interest expense in the three and six months ended October 31, 2014 and 2013 were as follows.

	(in thousands, except percentages)							
	Three Months Ended		2014 vs 2013		Six Months Ended		2014 vs 2013	
	October 31	2013	\$	% Change	October 31	2013	\$	% Change
Mortgage debt	\$13,583	\$14,206	\$(623)	(4.4)%	\$26,992	\$28,376	\$(1,384)	(4.9)%
Line of credit	447	132	315	238.6%	868	263	605	230.0%
Other	569	461	108	23.4%	1,403	756	647	85.6%
Total interest expense	\$14,599	\$14,799	\$(200)	(1.4)%	\$29,263	\$29,395	\$(132)	(0.4)%

Mortgage interest decreased by 4.4% to \$13.6 million in the second quarter of fiscal year 2015, compared to \$14.2 million in the same period of the prior fiscal year. Mortgages on properties newly acquired in fiscal years 2015 and 2014 added approximately \$170,000 and \$265,000 to our mortgage interest expense in the three and six months ended October 31, 2014, respectively, while mortgage interest on same-store properties decreased approximately \$793,000 and \$1.6 million compared to the three and six months ended October 31, 2013, primarily due to loan payoffs and refinancings. Our overall weighted average mortgage interest rate was 5.26% and 5.50% as of October 31, 2014 and 2013, respectively.

Interest expense on our line of credit increased to approximately \$447,000 and \$868,000 in the three and six months ended October 31, 2014, respectively, compared to approximately \$132,000 and \$263,000 in the same periods of the prior fiscal year, primarily due to a higher average outstanding balance during fiscal year 2015.

Other interest consists of interest on the Company's construction loans, a financing liability, security deposits and special assessments, as well as amortization of loan costs, offset by capitalized construction interest. Other interest increased to approximately \$569,000 in the second quarter of fiscal year 2015, compared to approximately \$461,000 in the same period of the prior fiscal year. Other interest increased to \$1.4 million in the six months ended October 31, 2014, compared to approximately \$756,000 in the same period of the prior fiscal year, primarily due to interest on a financing liability that was not in place for the entirety of the six months ended October 31, 2013.

**Interest Income and Other Income.** The Company recorded interest income in the second quarter of fiscal years 2015 and 2014 of approximately \$560,000 and \$585,000, respectively. Interest income for the six months ended October 31, 2014 was \$1.1 million, compared to approximately \$773,000 in the same period of the prior fiscal year. The increase was primarily due to interest earned on a contract for deed that was not in place for the entirety of the six months ended October 31, 2013. See the Proceeds from Financing Liability section of Note 2 of the Notes to the Condensed Consolidated Financial Statements in this report for additional information.

Other income consists of real estate tax appeal refunds and other miscellaneous income. The Company earned other income in the three months ended October 31, 2014 and 2013 of approximately \$136,000 and \$67,000, respectively, and in the six months ended October 31, 2014 and 2013 of approximately \$267,000 and \$89,000, respectively.

**Gain (Loss) on Sale of Real Estate and Other Investments.** The Company recorded in continuing operations a net gain of \$1.2 million in the three months ended October 31, 2014 and a net loss of \$(1.8) million in the six months ended October 31, 2014 on the sale of real estate. Properties sold in the six months ended October 31, 2014 and 2013 are detailed below in the section captioned "Property Dispositions."

Income from Discontinued Operations. Prior to February 1, 2014, the Company reported, in discontinued operations, the results of operations and the related gains or losses of properties that had either been disposed of or classified as held for sale and otherwise met the classification of a discontinued operation. Effective February 1, 2014 the Company adopted ASU No. 2014-08. Under this standard, a disposal (or classification as held for sale) of a component of an entity or a group of components of an entity is required to be reported in discontinued operations if the disposal represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results. As a result of the adoption of ASU No. 2014-08, results of operations and gains or losses on sale for

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properties that are disposed or classified as held for sale in the ordinary course of business on or subsequent to February 1, 2014 would generally be included in continuing operations on the Company's consolidated statements of operations, to the extent such disposals did not meet the criteria for classification as a discontinued operation described above.

The Company recorded no income from discontinued operations in the three and six months ended October 31, 2014, compared to \$5.4 million and \$6.0 million in the three and six months ended October 31, 2013, respectively. During the first three quarters of fiscal year 2014, the Company disposed of two multi-family residential properties, three office properties, twelve industrial properties and three retail properties that were classified as discontinued operations. The Company realized a gain on sale of discontinued operations of approximately \$4.7 million and \$6.6 million in the three and six months ended October 31, 2013, respectively. See Note 7 of the Notes to the Condensed Consolidated Financial Statements in this report for further information on discontinued operations.

**Net Income.** Net income available to common shareholders for the three and six months ended October 31, 2014 was \$5.9 million and \$5.7 million, respectively, compared to \$10.3 million and \$13.5 million for the three and six months ended October 31, 2013, respectively. On a per common share basis, net income was \$.02 and \$(.01) per common share for the three and six months ended October 31, 2014, respectively, compared to \$.06 for the three and six months ended October 31, 2013.

#### Occupancy

Occupancy as of October 31, 2014 compared to October 31, 2013 increased in two of our five reportable segments (multi-family residential and industrial), decreasing in our office and retail segments and remaining stable in our healthcare segment on a same-store basis. On an all-property basis, occupancy increased in our multi-family residential, office and industrial segments, decreasing in our retail segment and remaining the same in our healthcare segment. The increased occupancy in the industrial segment is due to the lease-up of 90,363 square feet at the Company's Urbandale, Iowa property, which raised occupancy in that segment to 100%. Occupancy represents the actual number of units or square footage leased divided by the total number of units or square footage at the end of the period.

#### Occupancy Levels on a Same-Store Property and All Property Basis:

Segments	Same-Store Properties		All Properties	
	As of October 31, 2014	As of October 31, 2013	As of October 31, 2014	As of October 31, 2013
Multi-Family Residential	95.6%	94.4%	94.6%	93.7%
Office	83.3%	85.1%	81.6%	81.0%
Healthcare	96.0%	96.1%	96.1%	96.1%
Industrial	100.0%	95.4%	100.0%	70.2%
Retail	85.7%	87.5%	86.1%	86.6%

#### Net Operating Income

Net Operating Income ("NOI") is a non-GAAP measure which we define as total real estate revenues and gain on involuntary conversion less real estate expenses (which consist of utilities, maintenance, real estate taxes, insurance, property management expenses and other property expenses). We believe that NOI is an important supplemental measure of operating performance for a REIT's operating real estate because it provides a measure of core operations that is unaffected by depreciation, amortization, financing and general and administrative expense. NOI does not represent cash generated by operating activities in accordance with GAAP and should not be considered an alternative to net income, net income available for common shareholders or cash flow from operating activities as a measure of financial performance.

The following tables show real estate revenues, real estate operating expenses, gain on involuntary conversion and NOI by reportable operating segment for the three and six months ended October 31, 2014 and 2013. For a reconciliation of net operating income of reportable segments to net income as reported, see Note 5 of the Notes to the Condensed Consolidated Financial Statements in this report.

The tables also show net operating income by reportable operating segment on a same-store property and non-same-store property basis. This comparison allows the Company to evaluate the performance of existing

properties and their contribution to net income. Management believes that measuring performance on a same-store property basis is useful to investors because it enables evaluation of how the Company's properties are performing year over year. Management uses this measure to assess whether or not it has been successful in increasing net operating income, renewing the leases of existing tenants, controlling operating costs and appropriately handling capital improvements. The discussion below focuses on the main factors affecting real estate revenue and real estate expenses from same-store properties, since changes from one fiscal year to another in real estate revenue and expenses from non-same-store properties are due to the addition of those properties to the Company's real estate portfolio, and accordingly provide less useful information for evaluating the ongoing operational performance of the Company's real estate portfolio.

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All Segments

The following table of selected operating data reconciles NOI to net income and provides the basis for our discussion of NOI by segment in the three and six months ended October 31, 2014 and 2013.

(in thousands, except percentages)

	Qtr Ended				YTD Ended			
	Oct	Oct	\$	%	Oct	Oct	\$	%
	FY2015	FY2014	Change	Change	FY2015	FY2014	Change	Change
All Segments								
Real estate revenue								
Same-store	\$63,760	\$62,904	\$ 856	1.4%	\$126,452	\$125,453	\$ 999	0.8%
Non-same-store <sup>(1)</sup>	6,282	2,868	3,414	119.0%	11,427	5,417	6,010	110.9%
Total	\$70,042	\$65,772	\$ 4,270	6.5%	\$137,879	\$130,870	\$ 7,009	5.4%
Real estate expenses								
Same-store	\$24,946	\$24,584	\$ 362	1.5%	\$50,373	\$49,815	\$ 558	1.1%
Non-same-store <sup>(1)</sup>	2,291	1,747	544	31.1%	4,382	3,156	1,226	38.8%
Total	\$27,237	\$26,331	\$ 906	3.4%	\$54,755	\$52,971	\$ 1,784	3.4%
Gain on involuntary conversion								
Same-store	\$0	\$0	\$ 0	n/a	\$0	\$0	\$ 0	n/a
Non-same-store <sup>(1)</sup>	0	0	0	n/a	0	966	(966)	(100.0)%
Total	\$0	\$0	\$ 0	n/a	\$0	\$966	\$(966)	(100.0)%
Net operating income								
Same-store	\$38,814	\$38,320	\$ 494	1.3%	\$76,079	\$75,638	\$ 441	0.6%
Non-same-store <sup>(1)</sup>	3,991	1,121	2,870	256.0%	7,045	3,227	3,818	118.3%
Total	\$42,805	\$39,441	\$ 3,364	8.5%	\$83,124	\$78,865	\$ 4,259	5.4%
TRS senior housing revenue	843	0			1,636	0		
TRS senior housing expenses	(725)	0			(1,418)	0		
Depreciation/amortization	(17,668)	(17,167)			(34,724)	(36,167)		
General and administrative	(3,468)	(3,205)			(7,744)	(6,637)		
Impairment of real estate investments	(3,245)	0			(5,565)	0		
Interest expense	(14,599)	(14,799)			(29,263)	(29,395)		
Interest and other income	696	652			1,387	862		
Income before loss on sale of real estate and other investments and income from discontinued operations	4,639	4,922			7,433	7,528		
Gain (loss) on sale of real estate and other investments	1,231	0			(1,762)	0		
Income from continuing operations	5,870	4,922			5,671	7,528		
Income from discontinued operations <sup>(2)</sup>	0	5,375			0	5,985		
Net income	\$5,870	\$10,297			\$5,671	\$13,513		

(1) Non-same-store properties consist of the following properties (re-development and in-service development properties are listed in bold type):

Multi-Family Colonial Villa, Burnsville, MN; Commons at Southgate, Minot, ND; Cypress Court, St. Cloud, MN; Dakota Commons, Williston, ND; Homestead Garden, Rapid City, SD; Landing at Southgate, Minot, ND; Northridge, Bismarck, ND; Pinecone Villas, Sartell, MN; Red 20, Minneapolis, MN; Renaissance Heights I, Williston, ND; River Ridge, Bismarck, ND; Silver Springs, Rapid City, SD and Southpoint, Grand Forks, ND.

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Total number of units, 1,397.

Healthcare - Spring Creek Fruitland, Fruitland, ID.  
Total rentable square footage, 39,500.

Industrial - Roseville 3075 Long Lake Road, Roseville, MN.  
Total rentable square footage, 17,750.

Held for Sale - Burnsville Bluffs II, Burnsville, MN; Northgate I, Maple Grove, MN; Plymouth I, Plymouth, MN;  
Office Plymouth II, Plymouth, MN; Plymouth III, Plymouth, MN; Plymouth IV-V, Plymouth, MN; Southeast  
Tech, Eagan, MN; Thresher Square, Minneapolis, MN and Whitewater Plaza, Minnetonka, MN.  
Total rentable square footage, 566,392.

Retail - Fargo Express Community, Fargo, ND.  
Total rentable square footage, 34,226.

Total NOI for held for sale properties for the three months ended October 31, 2014 and 2013, respectively,  
\$683 and \$643.

Total NOI for held for sale properties for the six months ended October 31, 2014 and 2013, respectively,  
\$1,465 and \$1,273.

Sold - Multi-Family Residential - Lancaster, St. Cloud, Minnesota.  
 Office - Dewey Hill Business Center, Edina, MN and Wirth Corporate Center, Golden Valley, Minnesota.  
 Industrial - Eagan 2785 & 2795 Hwy 55, Eagan, MN.  
 Retail - Kalispell Retail Center, Kalispell, MT and Weston Retail, Weston, WI.  
 Total NOI for sold properties for the three months ended October 31, 2014 and 2013, respectively, \$134 and \$(37).  
 Total NOI for sold properties for the six months ended October 31, 2014 and 2013, respectively, \$217 and \$(24).

(2) Discontinued operations include gain on disposals and income from operations for:  
 2014 Dispositions – Anoka Strip Center, API Building, Bloomington Business Plaza, Bodycote Industrial Building, Brooklyn Park 7401 Boone Ave, Burnsville 2 Strip Center, Cedar Lake Business Center, Clive 2075 NW 94<sup>th</sup> Street, Dixon Avenue Industrial Park, Eagan Community, East Park, Fargo 1320 45<sup>th</sup> Street N, Lighthouse, Metal Improvement Company, Minnetonka 13600 County Road 62, Nicollet VII, Pillsbury Business Center, Roseville 2929 Long Lake Road, Sycamore Village and Winsted Industrial Building.

An analysis of NOI by segment follows.  
 Multi-Family Residential

Real estate revenue from same-store properties in our multi-family residential segment increased by \$914,000 in the three months ended October 31, 2014 compared to the same period in the prior fiscal year. The continued levels of high occupancy provided the ability to raise rents, and accordingly a \$754,000 increase was realized due to rental rate increases. Other fee items combined increased by \$160,000.

Real estate expenses at same-store properties increased by \$138,000 in the three months ended October 31, 2014 compared to the same period in the prior fiscal year. The primary factor was increased maintenance expenses of \$114,000 attributable to more general maintenance items being completed during the period. All other real estate expenses combined increased by \$24,000.

Real estate revenue from same-store properties in our multi-family residential segment increased by \$1.5 million in the six months ended October 31, 2014 compared to the same period in the prior fiscal year. The continued levels of high occupancy provided the ability to raise rents, and accordingly a \$1.3 million increase was realized due to rental rate increases. Other fee items combined increased by \$167,000.

Real estate expenses at same-store properties increased by \$747,000 in the six months ended October 31, 2014 compared to the same period in the prior fiscal year. The primary factors were increased maintenance expense of \$350,000 and increased insurance expenses of \$306,000. The increase in maintenance expense was due to increased labor and benefit costs resulting from the ability to hire additional personnel in energy impacted markets where we were previously understaffed and more general maintenance items being completed during the period while the increase in insurance expense was primarily due to increased insurance premiums. All other real estate expenses combined increased by \$91,000.

(in thousands, except percentages)

Qtr Ended				YTD Ended			
Oct	Oct	\$	% Change	Oct	Oct	\$	% Change
FY2015	FY2014	Change		FY2015	FY2014	Change	

Multi-Family Residential

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Real estate revenue								
Same-store	\$25,051	\$24,137	\$ 914	3.8%	\$49,432	\$47,978	\$ 1,454	3.0%
Non-same-store	4,543	1,301	3,242	249.2%	7,889	1,833	6,056	330.4%
Total	\$29,594	\$25,438	\$ 4,156	16.3%	\$57,321	\$49,811	\$ 7,510	15.1%
Real estate expenses								
Same-store	\$10,614	\$10,476	\$ 138	1.3%	\$21,671	\$20,924	\$ 747	3.6%
Non-same-store	1,550	686	864	125.9%	2,711	1,083	1,628	150.3%
Total	\$12,164	\$11,162	\$ 1,002	9.0%	\$24,382	\$22,007	\$ 2,375	10.8%
Gain on involuntary conversion								
Same-store	\$0	\$0	\$0	n/a	\$0	\$0	\$0	n/a
Non-same-store	0	0	0	n/a	0	966	(966)	(100.0)%
Total	\$0	\$0	\$0	n/a	\$0	\$966	\$(966)	(100.0)%
Net operating income								
Same-store	\$14,437	\$13,661	\$ 776	5.7%	\$27,761	\$27,054	\$ 707	2.6%
Non-same-store	2,993	615	2,378	386.7%	5,178	1,716	3,462	201.7%
Total	\$17,430	\$14,276	\$ 3,154	22.1%	\$32,939	\$28,770	\$ 4,169	14.5%

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Occupancy	2015	2014
Same-store	95.6%	94.4%
Non-same-store	87.6%	83.8%
Total	94.6%	93.7%

Number of Units	2015	2014
Same-store	9,895	9,896
Non-same-store	1,397	677
Total	11,292	10,573

Office

Real estate revenue from same-store properties in our office segment decreased by \$335,000 in the second quarter of fiscal year 2015 compared to the second quarter of fiscal year 2014. The decrease in revenue was due to a decrease in rental revenue of \$218,000 and a decrease in tenant reimbursements of \$128,000 which resulted from a decrease in occupancy and recoverable operating expenses. These decreases were offset by an increase in other real estate revenue items of \$11,000.

Real estate expenses at same-store properties increased by \$132,000 in the second quarter of fiscal year 2015 compared to the second quarter of fiscal 2014. The primary factor was increased other property expenses of \$205,000 due to an increase in the bad debt provision. All other real estate expenses combined decreased by \$73,000.

Real estate revenue from same-store properties in our office segment decreased by \$868,000 in the six months ended October 31, 2014 compared to the same period in the prior fiscal year. The decrease in revenue was primarily due to a decrease in tenant reimbursements of \$743,000 which resulted from a decrease in occupancy and a decrease in recoverable operating expenses. Rental revenue decreased by \$139,000 due to decreased occupancy while other real estate revenue items increased by \$14,000.

Real estate expenses at same-store properties decreased by \$202,000 in the six months ended October 31, 2014 compared to the same period of the prior fiscal year. The primary factors were decreased utility expenses of \$358,000 and decreased real estate tax expenses of \$153,000. The decrease in utility expenses was primarily attributable to a decrease in utility rates. Other property expenses increased by \$321,000 due to an increase in the bad debt provision while maintenance, insurance and property management expenses combined decreased by \$12,000.

(in thousands, except percentages)

	Qtr Ended				YTD Ended			
	Oct FY2015	Oct FY2014	\$ Change	% Change	Oct FY2015	Oct FY2014	\$ Change	% Change
Office								
Real estate revenue								
Same-store	\$ 17,658	\$ 17,993	\$ (335)	(1.9)%	\$ 35,100	\$ 35,968	\$ (868)	(2.4)%
Non-same-store	1,326	1,374	(48)	(3.5)%	2,731	2,713	18	0.7%
Total	\$ 18,984	\$ 19,367	\$ (383)	(2.0)%	\$ 37,831	\$ 38,681	\$ (850)	(2.2)%
Real estate expenses								
Same-store	\$ 8,775	\$ 8,643	\$ 132	1.5%	\$ 17,363	\$ 17,565	\$ (202)	(1.2)%
Non-same-store	721	882	(161)	(18.3)%	1,461	1,714	(253)	(14.8)%
Total	\$ 9,496	\$ 9,525	\$ (29)	(0.3)%	\$ 18,824	\$ 19,279	\$ (455)	(2.4)%
Net operating income								
Same-store	\$ 8,883	\$ 9,350	\$ (467)	(5.0)%	\$ 17,737	\$ 18,403	\$ (666)	(3.6)%
Non-same-store	605	492	113	23.0%	1,270	999	271	27.1%
Total	\$ 9,488	\$ 9,842	\$ (354)	(3.6)%	\$ 19,007	\$ 19,402	\$ (395)	(2.0)%

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Occupancy	2015	2014
Same-store	83.3%	85.1%
Non-same-store	69.1%	57.0%
Total	81.6%	81.0%

Rentable Square Footage	2015	2014
Same-store	4,117,712	4,113,819
Non-same-store	566,392	714,292
Total	4,684,104	4,828,111

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Healthcare

Real estate revenue from same-store properties in our healthcare segment increased by \$227,000 in the three months ended October 31, 2014 compared to the same period in the prior fiscal year. Real estate rental revenue increased by \$124,000 due to increased rental rates while tenant reimbursements increased by \$106,000 primarily due to a slight increase in recoverable operating expenses. Other real estate revenue items decreased by \$3,000.

Real estate expenses from same-store properties increased by \$21,000 in the three months ended October 31, 2014 compared to the same period in the prior fiscal year. The increase in expenses was primarily attributable to an increase in maintenance expenses of \$107,000 due to more general maintenance items being completed during the quarter.

This increase was offset by a decrease in utility costs of \$62,000 primarily attributable to a decrease in utility rates and a decrease in all other real estate expenses combined of 24,000.

Real estate revenue from same-store properties in our healthcare segment increased by \$284,000 in the six months ended October 31, 2014 compared to the same period in the prior fiscal year. Real estate rental revenue increased by \$266,000 due to increased rental rates while all other real estate revenue items combined increased by \$18,000.

Real estate expenses from same-store properties increased by \$101,000 in the six months ended October 31, 2014 compared to the same period in the prior fiscal year. The increase in expenses was primarily attributable to an increase in maintenance expenses of \$129,000 due to more general maintenance items being completed during the period. All other real estate expense combined decreased by \$28,000.

(in thousands, except percentages)

	Qtr Ended				YTD Ended			
	Oct FY2015	Oct FY2014	\$ Change	% Change	Oct FY2015	Oct FY2014	\$ Change	% Change
<b>Healthcare</b>								
<b>Real estate revenue</b>								
Same-store	\$ 16,252	\$ 16,025	\$ 227	1.4%	\$ 32,382	\$ 32,098	\$ 284	0.9%
Non-same-store	184	0	184	n/a	352	0	352	n/a
Total	\$ 16,436	\$ 16,025	\$ 411	2.6%	\$ 32,734	\$ 32,098	\$ 636	2.0%
<b>Real estate expenses</b>								
Same-store	\$ 4,149	\$ 4,128	\$ 21	0.5%	\$ 8,513	\$ 8,412	\$ 101	1.2%
Non-same-store	24	0	24	n/a	77	0	77	n/a
Total	\$ 4,173	\$ 4,128	\$ 45	1.1%	\$ 8,590	\$ 8,412	\$ 178	2.1%
<b>Net operating income</b>								
Same-store	\$ 12,103	\$ 11,897	\$ 206	1.7%	\$ 23,869	\$ 23,686	\$ 183	0.8%
Non-same-store	160	0	160	n/a	275	0	275	n/a
Total	\$ 12,263	\$ 11,897	\$ 366	3.1%	\$ 24,144	\$ 23,686	\$ 458	1.9%

Occupancy	2015	2014
Same-store	96.0%	96.1%
Non-same-store	100.0%	n/a
Total	96.1%	96.1%

Rentable Square Footage	2015	2014
Same-store	2,956,216	2,956,022
Non-same-store	39,500	0
Total	2,995,716	2,956,022

Industrial

Real estate revenue from same-store properties in our industrial segment increased by \$16,000 in the second quarter of fiscal year 2015 compared to the second quarter of fiscal year 2014. Real estate rental revenue increased by \$27,000 due to increased occupancy while tenant reimbursements decreased by \$11,000 due to a decrease in recoverable operating expenses.

Real estate expenses from same-store properties decreased by \$61,000 in the second quarter of fiscal 2015 compared to the second quarter of fiscal 2014. The decrease was primarily due to a decrease in real estate tax expenses of \$43,000 while all other real estate expenses combined decreased by \$18,000.

Real estate revenue from same-store properties in our industrial segment decreased by \$6,000 in the six months ended October 31, 2014 compared to the same period of the prior fiscal year. Real estate rental revenue increased by \$29,000 due to increased occupancy while tenant reimbursements decreased by \$35,000 due to a decrease in recoverable operating expenses.

Real estate expenses from same-store properties decreased by \$41,000 in the six months ended October 31, 2014 compared to the same period of the prior fiscal year. The decrease was primarily due to a decrease in real estate tax expenses of \$42,000 while all other real estate expenses combined increased by \$1,000.

(in thousands, except percentages)

	Qtr Ended				YTD Ended			
	Oct	Oct	\$	% Change	Oct	Oct	\$	% Change
	FY2015	FY2014	Change		FY2015	FY2014	Change	

Industrial

Real estate revenue

Same-store	\$ 1,556	\$ 1,540	\$ 16	1.0%	\$ 3,053	\$ 3,059	\$ (6)	(0.2)%
Non-same-store	37	31	6	19.4%	110	550	(440)	(80.0)%
Total	\$ 1,593	\$ 1,571	\$ 22	1.4%	\$ 3,163	\$ 3,609	\$ (446)	(12.4)%

Real estate expenses

Same-store	\$ 303	\$ 364	\$ (61)	(16.8)%	\$ 647	\$ 688	\$ (41)	(6.0)%
Non-same-store	(31)	137	(168)	(122.6)%	74	268	(194)	(72.4)%
Total	\$ 272	\$ 501	\$ (229)	(45.7)%	\$ 721	\$ 956	\$ (235)	(24.6)%

Net operating income

Same-store	\$ 1,253	\$ 1,176	\$ 77	6.5%	\$ 2,406	\$ 2,371	\$ 35	1.5%
Non-same-store	68	(106)	174	164.2%	36	282	(246)	(87.2)%
Total	\$ 1,321	\$ 1,070	\$ 251	23.5%	\$ 2,442	\$ 2,653	\$ (211)	(8.0)%

Occupancy	2015	2014
Same-store	100.0%	95.4%
Non-same-store	100.0%	11.2%
Total	100.0%	70.2%

Rentable Square Footage	2015	2014
Same-store	1,002,361	1,002,361
Non-same-store	17,750	427,672
Total	1,020,111	1,430,033



Retail

Real estate revenue from same-store properties in our retail segment increased by \$34,000 in the three months ended October 31, 2014 compared to the same period in the prior fiscal year. The increase in revenue was due to increased rental revenue of \$52,000 which was the result of increased rental rates. Other real estate revenue items decreased by \$18,000.

Real estate expenses from same-store properties increased by \$132,000 in the three months ended October 31, 2014 compared to the same period in the prior fiscal year. The primary factors were increased other property expenses of \$98,000 and increased maintenance expenses of \$78,000. The increase in other property expenses was due to an increase in the bad debt provision while the increase in maintenance expenses was due to more general maintenance items being completed during the quarter. Utility, real estate tax, insurance and property management expenses decreased by a combined \$44,000.

Real estate revenue from same-store properties in our retail segment increased by \$135,000 in the six months ended October 31, 2014 compared to the same period in the prior fiscal year. The increase in revenue was due to increased rental revenue of \$148,000 which was the result of increased rental rates. Other real estate revenue items combined decreased by \$13,000.

Real estate expenses from same-store properties decreased by \$47,000 in the six months ended October 31, 2014 compared to the same period in the prior fiscal year, primarily due to decreased real estate tax expenses.

(in thousands, except percentages)

	Qtr Ended				YTD Ended			
	Oct FY2013	Oct FY2014	\$ Change	% Change	Oct FY2013	Oct FY2014	\$ Change	% Change
<b>Retail</b>								
<b>Real estate revenue</b>								
Same-store	\$3,243	\$3,209	\$ 34	1.1%	\$6,485	\$6,350	\$ 135	2.1%
Non-same-store	192	162	30	18.5%	345	321	24	7.5%
<b>Total</b>	<b>\$3,435</b>	<b>\$3,371</b>	<b>\$ 64</b>	<b>1.9%</b>	<b>\$6,830</b>	<b>\$6,671</b>	<b>\$ 159</b>	<b>2.4%</b>
<b>Real estate expenses</b>								
Same-store	\$1,105	\$973	\$ 132	13.6%	\$2,179	\$2,226	\$ (47)	(2.1)%
Non-same-store	27	42	(15)	(35.7)%	59	91	(32)	(35.2)%
<b>Total</b>	<b>\$1,132</b>	<b>\$1,015</b>	<b>\$ 117</b>	<b>11.5%</b>	<b>\$2,238</b>	<b>\$2,317</b>	<b>\$ (79)</b>	<b>(3.4)%</b>
<b>Net operating income</b>								
Same-store	\$2,138	\$2,236	\$ (98)	(4.4)%	\$4,306	\$4,124	\$ 182	4.4%
Non-same-store	165	120	45	37.5%	286	230	56	24.3%
<b>Total</b>	<b>\$2,303</b>	<b>\$2,356</b>	<b>\$ (53)</b>	<b>(2.2)%</b>	<b>\$4,592</b>	<b>\$4,354</b>	<b>\$ 238</b>	<b>5.5%</b>
<b>Occupancy</b>								
	2015	2014						
Same-store	85.7%	87.5%						
Non-same-store	100.0%	77.1%						
<b>Total</b>	<b>86.1%</b>	<b>86.6%</b>						
<b>Rentable Square Footage</b>								
	2015	2014						
Same-store	1,196,452	1,196,452						
Non-same-store	34,226	111,870						
<b>Total</b>	<b>1,230,678</b>	<b>1,308,322</b>						



## Analysis of Commercial Segments' Credit Risk and Leases

## Credit Risk

The following table lists our top ten commercial tenants on October 31, 2014, for all commercial properties owned by us, measured by percentage of total commercial segments' minimum rents as of October 1, 2014. Our results of operations are dependent on, among other factors, the economic health of our tenants. We attempt to mitigate tenant credit risk by working to secure creditworthy tenants that meet our underwriting criteria and monitoring our portfolio to identify potential problem tenants. We believe that our credit risk is also mitigated by the fact that no individual tenant accounts for more than 10% of our total real estate rentals, although affiliated entities of Edgewood Vista together accounted for approximately 14.6% of our total commercial segments' minimum rents as of October 1, 2014, and they accounted for approximately 7.6% of our total real estate rentals as of October 1, 2014.

As of October 31, 2014, 57 of our 161 commercial properties, including all 20 of our Edgewood Vista properties, all seven of our Idaho Spring Creek senior housing properties, and all five of our Wyoming senior housing properties, were leased under triple net leases under which the tenant pays a monthly lump sum base rent as well as all costs associated with the property, including property taxes, insurance, replacement, repair or restoration, in addition to maintenance. The failure by any of our triple net tenants to effectively conduct their operations or to maintain and improve our properties in accordance with the terms of their respective triple net leases could adversely affect their business reputations and ability to attract and retain residents and customers to our properties, which could have an indirect adverse effect on us.

We regularly monitor the relative credit risk of our significant tenants, including our triple net tenants. The metrics the Company uses to evaluate a significant tenant's liquidity and creditworthiness depend on facts and circumstances specific to that tenant and to the industry in which it operates, and include the tenant's credit history and economic conditions related to the tenant, its operations and the markets in which it operates. These factors may change over time. Prior to signing a lease with a tenant, the Company generally assesses the prospective tenant's credit quality through review of its financial statements and tax returns, and the result of that review is a factor in establishing the rent to be charged (e.g., higher risk tenants will be charged higher rent). Over the course of a lease, the Company's property management and asset management personnel have regular contact with tenants and tenant employees, and, where the terms of the lease permit, receive tenant financial information for periodic review, or review publicly-available financial statements, in the case of public company tenants or non-profit entities, such as hospital systems, whose financial statements are required to be filed with state agencies. Through these means the Company monitors tenant credit quality.

Lessee	% of Total Commercial Segments' Minimum Rents as of October 1, 2014
Affiliates of Edgewood Vista	14.6%
Fairview Health Services	3.7%
St. Luke's Hospital of Duluth, Inc.	3.7%
Applied Underwriters	2.4%
HealthEast Care System	1.8%
Microsoft (NASDAQ: MSFT)	1.4%
Arcadis Corporate Services, Inc.	1.4%
Affiliates of Siemens USA (NYSE: SI)	1.4%
Nebraska Orthopaedic Hospital <sup>(1)</sup>	1.3%
State of Idaho Department of Health and Welfare	1.2%
All Others	67.1%
Total Monthly Commercial Rent as of October 1, 2014	100.0%

The tenant in the Company's Nebraska Orthopaedic Hospital property has exercised its option to purchase the property. The Company and its tenant are currently engaged in an arbitration proceeding pursuant to the lease agreement to determine the purchase price. The Company currently can give no assurance that the sale of the property pursuant to the purchase option will be completed.



Commercial Leasing Activity

During fiscal year 2015, we have executed new and renewal commercial leases for our same-store rental properties on 363,924 square feet for the three months ended October 31, 2014 and 653,905 square feet for the six months ended October 31, 2014. Despite our leasing efforts, occupancy in our same-store commercial portfolio decreased slightly to 89.5% as of October 31, 2014, down from 90.0% as of October 31, 2013.

The total leasing activity for our same-store commercial rental properties, expressed in square feet of leases signed during the period, and the resulting occupancy levels, are as follows:

Three Months Ended October 31, 2014 and 2013

Segments	Square Feet of New Leases <sup>(1)</sup>		Square Feet of Leases Renewed <sup>(1)</sup>		Total Square Feet of Leases Executed <sup>(1)</sup>		Occupancy	
	2014	2013	2014	2013	2014	2013	2014	2013
Office	43,428	86,863	140,417	84,829	183,845	171,692	83.3%	85.1%
Healthcare	2,632	9,590	61,672	3,734	64,304	13,324	96.0%	96.1%
Industrial	0	120,363	0	29,754	0	150,117	100.0%	95.4%
Retail	23,746	5,902	92,029	37,128	115,775	43,030	85.7%	87.5%
Total	69,806	222,718	294,118	155,445	363,924	378,163	89.5%	90.0%

The leasing activity presented is based on leases signed or executed for our same-store rental properties during the period and is not intended to coincide with the commencement of rental revenue in accordance with GAAP. Prior periods reflect amounts previously reported and exclude retroactive adjustments for properties reclassified to discontinued operations or non-same-store in the current period.

Six Months Ended October 31, 2014 and 2013

Segments	Square Feet of New Leases <sup>(1)</sup>		Square Feet of Leases Renewed <sup>(1)</sup>		Total Square Feet of Leases Executed <sup>(1)</sup>		Occupancy	
	2014	2013	2014	2013	2014	2013	2014	2013
Office	82,548	213,855	267,149	142,374	349,697	356,229	83.3%	85.1%
Healthcare	11,579	31,093	100,688	17,262	112,267	48,355	96.0%	96.1%
Industrial	0	170,403	0	251,831	0	422,234	100.0%	95.4%
Retail	47,968	97,859	143,973	49,693	191,941	147,552	85.7%	87.5%
Total	142,095	513,210	511,810	461,160	653,905	974,370	89.5%	90.0%

The leasing activity presented is based on leases signed or executed for our same-store rental properties during the period and is not intended to coincide with the commencement of rental revenue in accordance with GAAP. Prior periods reflect amounts previously reported and exclude retroactive adjustments for properties reclassified to discontinued operations or non-same-store in the current period.

New Leases

The following table sets forth the average effective rents and the estimated costs of tenant improvements and leasing commissions, on a per square foot basis, that we are obligated to fulfill under the new leases signed for our same-store commercial rental properties:

Three Months Ended October 31, 2014 and 2013

Segments	Square Feet of New Leases <sup>(1)</sup>		Average Term in Years		Average Effective Rent <sup>(2)</sup>		Estimated Tenant Improvement Cost per Square Foot <sup>(1)</sup>		Leasing Commissions per Square Foot <sup>(1)</sup>	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
Office	43,428	86,863	4.6	3.9	\$14.73	\$16.38	\$19.92	\$14.77	\$5.91	\$5.17
Healthcare	2,632	9,590	3.4	4.6	19.89	20.28	9.25	50.48	0	10.12
Industrial	0	120,363	0	2.1	0	3.59	0	0.25	0	0.82

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Retail	23,746	5,902	3.7	7.3	7.69	14.03	19.52	16.87	1.64	3.47
Total	69,806	222,718	4.1	4.3	\$12.53	\$9.57	\$19.38	\$8.51	\$ 4.23	\$ 2.99

The leasing activity presented is based on leases signed or executed for our same-store rental properties during the period and is not intended to coincide with the commencement of rental revenue in accordance with GAAP. Prior (1) periods reflect amounts previously reported and exclude retroactive adjustments for properties reclassified to discontinued operations or non-same-store in the current period. Tenant improvements and leasing commissions presented are based on square feet leased during the period.

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Effective rents represent average annual base rental payments, on a straight-line basis for the term of each lease, (2)excluding operating expense reimbursements. The underlying leases contain various expense structures including gross, modified gross, net and triple net.

Six Months Ended October 31, 2014 and 2013

	Square Feet of New Leases <sup>(1)</sup>		Average Term in Years		Average Effective Rent <sup>(2)</sup>		Estimated Tenant Improvement Cost per Square Foot <sup>(1)</sup>			Leasing Commissions per Square Foot <sup>(1)</sup>	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	
Office	82,548	213,855	4.7	4.6	\$13.86	\$14.38	\$15.69	\$15.01	\$ 5.09	\$ 4.67	
Healthcare	11,579	31,093	5.5	5.3	20.82	21.43	25.05	49.94	7.03	6.79	
Industrial	0	170,403	0	3.2	0	3.74	0	0.18	0	0.68	
Retail	47,968	97,859	4.0	5.4	8.35	4.25	17.22	1.55	3.57	4.15	
Total	142,095	513,210	4.6	4.7	\$12.57	\$9.34	\$16.97	\$9.63	\$ 4.74	\$ 3.37	

The leasing activity presented is based on leases signed or executed for our same-store rental properties during the period and is not intended to coincide with the commencement of rental revenue in accordance with GAAP. Prior (1)periods reflect amounts previously reported and exclude retroactive adjustments for properties reclassified to discontinued operations or non-same-store in the current period. Tenant improvements and leasing commissions presented are based on square feet leased during the period.

Effective rents represent average annual base rental payments, on a straight-line basis for the term of each lease, (2)excluding operating expense reimbursements. The underlying leases contain various expense structures including gross, modified gross, net and triple net.

Our ability to maintain or increase occupancy rates is a principal driver of maintaining and increasing the average effective rents in our commercial segments. The increase in the average effective rental rate, estimated tenant improvements per square foot and leasing costs per square foot of new leases executed in the total commercial portfolio for the three months ended October 31, 2014 and the six months ended October 31, 2014 when compared to the same periods in the prior year is due primarily to the fact that there were no new industrial leases executed in the six months ended October 31, 2014, since industrial segment rents are typically lower on a per-square foot basis than rents charged for higher-finish office, retail and healthcare space.

Lease Renewals

The following table summarizes our lease renewal activity within our same-store commercial segments (square feet data in thousands):

Three Months Ended October 31, 2014 and 2013

	Square Feet of Leases Renewed <sup>(1)</sup>		Percent of Expiring Leases Renewed <sup>(2)</sup>		Average Term in Years		Weighted Average Growth (Decline) in Effective Rents <sup>(3)</sup>		Estimated Tenant Improvement Cost per Square Foot <sup>(1)</sup>		Leasing Commissions per Square Foot <sup>(1)</sup>	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
Office	140,417	84,829	70.0%	12.3%	2.2	4.3	2.4%	(5.0%)	\$0	\$6.52	\$1.23	\$5.70
Healthcare	61,672	3,734	38.0%	100.0%	5.6	3.0	(8.5%)	11.4%	11.77	0	0.46	0
Industrial	0	29,754	0.0%	100.0%	0	3.0	0.0%	16.1%	0	2.71	0	1.78
Retail	92,029	37,128	58.4%	77.2%	3.8	3.0	38.4%	11.2%	0.20	0.40	0	0.06
Total	294,118	155,445	63.0%	31.2%	3.4	3.6	3.5%	0.2%	\$2.53	\$4.17	\$0.68	\$3.47

The leasing activity presented is based on leases signed or executed for our same-store rental properties during the period and is not intended to coincide with the commencement of rental revenue in accordance with GAAP. Prior (1)periods reflect amounts previously reported and exclude retroactive adjustments for properties reclassified to discontinued operations or non-same-store in the current period. Tenant improvements and leasing commissions are based on square feet leased during the period.

(2) Renewal percentage of expiring leases is based on square footage of renewed leases and not the number of leases renewed. Beginning in the first quarter of fiscal year 2015, the category of renewed leases does not include leases that have become month-to-month leases; these month-to-month leases are considered lease amendments.

Previous-period data has been revised to reflect this change.

(3) Represents the percentage change in effective rent between the original leases and the renewal leases. Effective rents represent average annual base rental payments, on a straight-line basis for the term of each lease, excluding operating expense reimbursements. The underlying leases contain various expense structures including gross, modified gross, net and triple net.



## Six Months Ended October 31, 2014 and 2013

	Square Feet of Leases Renewed <sup>(1)</sup>		Percent of Expiring Leases Renewed <sup>(2)</sup>		Average Term in Years		Weighted Average Growth (Decline) in Effective Rents <sup>(3)</sup>		Estimated Tenant Improvement Cost per Square Foot <sup>(1)</sup>		Leasing Commissions per Square Foot <sup>(1)</sup>	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
Office	267,149	142,374	64.4%	55.8%	2.8	3.9	11.4%	(3.1)%	\$2.87	\$4.78	\$1.56	\$4.12
Healthcare	100,688	17,262	61.3%	100.0%	5.6	6.0	(3.9)%	8.2%	9.16	20.19	1.06	2.21
Industrial	0	251,831	0.0%	52.7%	0	3.2	0.0%	7.5%	0	0.32	0	0.48
Retail	143,973	49,693	46.7%	14.8%	4.0	3.5	33.7%	8.3%	1.85	0.30	0.05	0.05
Total	511,810	461,160	58.1%	49.4%	3.8	3.8	9.2%	2.3%	\$3.82	\$2.44	\$1.04	\$1.62

The leasing activity presented is based on leases signed or executed for our same-store rental properties during the period and is not intended to coincide with the commencement of rental revenue in accordance with GAAP. Prior (1) periods reflect amounts previously reported and exclude retroactive adjustments for properties reclassified to discontinued operations or non-same-store in the current period. Tenant improvements and leasing commissions are based on square feet leased during the period.

Renewal percentage of expiring leases is based on square footage of renewed leases and not the number of leases renewed. Beginning in the first quarter of fiscal year 2015, the category of renewed leases does not include leases (2) that have become month-to-month leases; these month-to-month leases are considered lease amendments.

Previous-period data has been revised to reflect this change.

Represents the percentage change in effective rent between the original leases and the renewal leases. Effective (3) rents represent average annual base rental payments, on a straight-line basis for the term of each lease, excluding operating expense reimbursements. The underlying leases contain various expense structures including gross, modified gross, net and triple net.

The decline in the average growth in effective rents for the healthcare segment for the three months ended October 31, 2014 and the six months ended October 31, 2014 when compared to the same periods in the prior fiscal year is due to a 45,081 square foot lease renewal executed with the existing single tenant at our Pavilion I property in Duluth, Minnesota. This lease was renewed at a lower rate than the previous expiring lease due to very low leasing transaction costs associated with the lease renewal. Absent this lease transaction, the weighted average growth rate in effective rents for the three months ended October 31, 2014 would have been 3.7% and for the six months ended October 31, 2014 would have been 4.2%.

The increase in the weighted average growth in effective rents for the retail segment for the three months ended October 31, 2014 when compared to the same period in the prior fiscal year is due to a 47,150 square foot lease renewal executed at our Rochester, Minnesota Maplewood Square property. Absent this lease transaction, the weighted average growth rate in effective rents for the three months ended October 31, 2014 would have been 5.3%. In the three months ended July 31, 2014, IRET executed a 36,752 square foot lease renewal at our St. Cloud, Minnesota Westgate property that contained a significant tenant improvement allowance. This significant tenant improvement allowance negotiated by the tenant required an increased rental rate to be negotiated by IRET as well. Absent this lease, and the lease renewal at our Rochester, Minnesota Maplewood Square property mentioned above, the weighted average growth rate in effective rents for the commercial retail segment for the six months ended October 31, 2014 would have been 5.1% and the estimated tenant improvements cost per square foot would have been \$0.98.

## Lease Expirations

Our ability to maintain and improve occupancy rates, and base rents, primarily depends upon our continuing ability to re-lease expiring space. The following table reflects the in-service portfolio lease expiration schedule of our consolidated commercial segments properties, including square footage and annualized base rent for expiring leases, as of October 31, 2014.

Fiscal Year of Lease Expiration	# of Leases	Square Footage of Expiring Leases <sup>(3)</sup>	Percentage of Total Commercial Segments Leased Square Footage	Annualized Base Rent of Expiring Leases at Expiration <sup>(2)</sup>	Percentage of Total Commercial Segments Annualized Base Rent
2015(remainder) <sup>(1)</sup>	101	646,815	7.3%	\$8,617,535	7.3%
2016	129	1,180,099	13.3%	14,665,993	12.5%
2017	140	1,200,701	13.5%	18,684,714	16.0%
2018	96	735,386	8.3%	11,086,154	9.5%
2019	90	1,397,269	15.7%	18,064,803	15.4%
2020	48	675,769	7.6%	7,705,957	6.6%
2021	44	396,498	4.5%	5,460,643	4.7%
2022	46	1,400,202	15.8%	17,576,148	15.0%
2023	10	466,870	5.3%	2,002,925	1.7%
2024	46	428,590	4.8%	6,658,385	5.7%
Thereafter	21	349,594	3.9%	6,569,672	5.6%
Totals	771	8,877,793	100.0%	\$117,092,929	100.0%

(1) Includes month-to-month leases. As of October 31, 2014 month-to-month leases accounted for 415,222 square feet.

(2) Annualized Base Rent is monthly scheduled rent as of October 1, 2014, multiplied by 12.

(3) Assuming that none of the tenants exercise renewal or termination options, and including leases renewed prior to expiration. Also excludes 98,174 square feet of income producing real estate operated within a TRS.

Because of the diverse property types in the Company's commercial portfolio and the dispersed locations of a substantial portion of the portfolio's properties in secondary and tertiary markets, information on current market rents is difficult to obtain, is highly subjective, and is often not directly comparable between properties. As a result, the Company believes that the increase or decrease in effective rent on its recent leases is the most objective and meaningful information available regarding rent trends and the relationship between rents on leases expiring in the near term and current market rents across the Company's markets. The Company believes that rents on its new and renewed leases generally approximate market rents.

## PROPERTY ACQUISITIONS AND DISPOSITIONS

During the second quarter of fiscal year 2015, the Company closed on its acquisition of:

- a 68-unit multi-family residential property in Bismarck, North Dakota, on approximately 5.8 acres of land, for a purchase price of \$8.5 million, of which \$8.4 million was paid in cash, and the remainder in limited partnership units of the Operating partnership valued at \$100,000; and
- an approximately 12.7-acre parcel of vacant land in Monticello, Minnesota, acquired for possible future development, for a purchase price of \$1.6 million, paid in cash.

During the second quarter of fiscal year 2015, the Company sold one multi-family residential property, one office property and one retail property, along with the adjacent unimproved land for a total sales price of \$10.9 million. See Note 8 of the Notes to Condensed Consolidated Financial Statements in this report for a table detailing the Company's acquisitions and dispositions during the six month periods ended October 31, 2014 and 2013.

## Development and Re-Development Projects

The following tables provide additional detail, as of October 31, 2014, on the Company's in-service (completed) development and re-development projects and development and re-development projects in progress. All of these projects are excluded from the same-store pool. The Company measures initial yield on its development projects upon

completion and achievement of target lease-up levels by measuring net operating income from the development against the cost of the project. Estimated initial yields on the projects listed below range from an estimated approximate 6.0% to an estimated approximate 14.0% initial yield. The higher initial returns are for those projects that are located in certain of the Company's markets which are experiencing higher levels of economic growth due

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primarily to energy development. In these markets, actual initial yields upon project completion have been above our initial projections due to heightened tenant demand, low vacancy and rent growth in this region. However, the Company currently expects that elevated construction costs in these markets, combined with increased development activity in the region, may make it less likely that actual initial yields upon project completion for the Company's development projects in progress in these markets will materially exceed the estimated initial yields forecast at the project underwriting stage. The Company expects these trends of elevated construction costs and increased competition from other developers to eventually move yields on its development projects in the region to more modest levels similar to returns being achieved in other parts of the United States.

Projects Completed in the Six Months Ended October 31, 2014

Project Name and Location	Segment	Total Rentable Square Feet or Number of Units	Percentage Leased or Committed	(in thousands)		(in fiscal years)		
				Anticipated Total Cost <sup>(1)</sup>	Costs as of October 31, 2014 <sup>(1)</sup>	Cost per Square Foot or Unit <sup>(1)</sup>	Date Placed in Service	Anticipated Same-Store Date
Dakota Commons - Williston, ND	Multi-Family Residential	44 units	100%	\$10,736	\$10,275	\$244,000	Q1 2015	Q1 2017

(1)Excludes tenant improvements and leasing commissions.

Projects in Progress at October 31, 2014

Project Name and Location	Planned Segment	Rentable Square Feet or Number of Units	Percentage Leased or Committed	(in thousands)		(in fiscal years)	
				Anticipated Total Cost	Costs as of October 31, 2014 <sup>(1)</sup>	Anticipated Construction Completion	
Commons at Southgate - Minot, ND <sup>(2)</sup>	Multi-Family Residential	233 units	70.1%	\$37,201	\$34,787	3Q 2015	
Minot Wells Fargo Bank - Minot, ND	Retail	4,998 sq ft	100%	3,288	2,781	3Q 2015	
Cypress Court II – St. Cloud, MN <sup>(3)</sup>	Multi-Family Residential	66 units	34.4%	7,028	5,777	3Q 2015	
Arcata - Golden Valley, MN	Multi-Family Residential	165 units	3.0%	33,448	24,689	3Q 2015	
Red 20 - Minneapolis, MN <sup>(4)</sup>	Multi-Family Residential and Commercial	130 units and 10,625 sq ft	30.0%	29,462	27,424	3Q 2015	
Minot Office Center - Minot, ND	Retail	7,963 sq ft	0%	2,923	1,300	1Q 2016	
Roseville 3075 Long Lake Rd - Roseville, MN	Industrial	202,807 sq ft	5.4%	13,915	7,347	1Q 2016	
Renaissance Heights I - Williston, ND <sup>(5)</sup>	Multi-Family Residential	288 units	37.2%	62,362	50,607	1Q 2016	
Chateau II - Minot, ND	Multi-Family Residential	72 units	0%	14,711	8,500	1Q 2016	
71 France Phase I - Edina, MN <sup>(6)</sup>	Multi-Family Residential	109 units	0%	27,458	9,649	1Q 2016	
Cardinal Point - Grand Forks, ND	Multi-Family Residential	251 units	0%	40,042	13,565	2Q 2016	
Deer Ridge – Jamestown, ND	Multi-Family Residential	163 units	0%	24,519	5,646	2Q 2016	
	Medical	67,890 sq ft	21.0%	34,665	10,840	2Q 2016	

Edina 6565 France SMC

III - Edina, MN

PrairieCare Medical -

Brooklyn Park, MN

Other

Medical

n/a

72,588 sq ft 100%

n/a n/a

24,251 7,458 2Q 2016

n/a 1,390 n/a  
\$355,273 \$211,760

(1) Includes costs related to development projects that are placed in service in phases (Commons at Southgate - \$19.3 million, Red 20 - \$11.6 million, Renaissance Heights I - \$34.5 million).

(2) The Company is currently an approximately 52.9% partner in the joint venture entity constructing this project; the anticipated total cost amount given is the total cost to the joint venture entity.

(3) The Company is an approximately 86.1% partner in the joint venture entity constructing this project; the anticipated total cost amount given is the total cost to the joint venture entity.

(4) The Company is an approximately 58.6% partner in the joint venture entity constructing this project; the anticipated total cost amount given is the total cost to the joint venture entity.

(5) The Company is an approximately 70% partner in the joint venture entity constructing this project; the anticipated total cost amount given is the total cost to the joint venture entity.

The project will be constructed in three phases, and at the conclusion of construction of the third phase, the Company will have an approximately 52.6% interest in the joint venture entity constructing the project. The (6) anticipated total cost amount given in the table above is the total cost to the joint venture entity of the project's first phase. The expected total project cost for all three phases is approximately \$69.9 million for a total of approximately 241 residential units and approximately 21,772 square feet of retail space.

## FUNDS FROM OPERATIONS

IRET considers Funds from Operations ("FFO") a useful measure of performance for an equity REIT. IRET uses the definition of FFO adopted by the National Association of Real Estate Investment Trusts, Inc. ("NAREIT"). NAREIT defines FFO to mean "net income (computed in accordance with generally accepted accounting principles), excluding gains (or losses) from sales of property, plus depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures. Adjustments for unconsolidated partnerships and joint ventures will be calculated to reflect funds from operations on the same basis." In addition, in October 2011 NAREIT clarified its computation of FFO so as to exclude impairment charges for all periods presented. Because of limitations of the FFO definition adopted by NAREIT, IRET has made certain interpretations in applying the definition. IRET believes all such interpretations not specifically provided for in the NAREIT definition are consistent with the definition.

IRET management considers that FFO, by excluding depreciation costs, impairment write-downs, the gains or losses from the sale of operating real estate properties and extraordinary items as defined by U.S. GAAP, is useful to investors in providing an additional perspective on IRET's operating results. Historical cost accounting for real estate assets in accordance with U.S. GAAP assumes, through depreciation, that the value of real estate assets decreases predictably over time. However, real estate asset values have historically risen or fallen with market conditions. NAREIT's definition of FFO, by excluding depreciation costs, reflects the fact that real estate, as an asset class, generally appreciates over time and that depreciation charges required by U.S. GAAP may not reflect underlying economic realities. Additionally, the exclusion, in NAREIT's definition of FFO, of impairment write-downs and gains and losses from the sales of previously depreciated operating real estate assets, assists IRET management and investors in identifying the operating results of the long-term assets that form the core of IRET's investments, and assists in comparing those operating results between periods. FFO is used by IRET management and investors to identify trends in occupancy rates, rental rates and operating costs.

While FFO is widely used by REITs as a primary performance metric, not all real estate companies use the same definition of FFO or calculate FFO in the same way. Accordingly, FFO presented here is not necessarily comparable to FFO presented by other real estate companies. FFO should not be considered as an alternative to net income as determined in accordance with U.S. GAAP as a measure of IRET's performance, but rather should be considered as an additional, supplemental measure, and should be viewed in conjunction with net income as presented in the consolidated financial statements included in this report. FFO does not represent cash generated from operating activities in accordance with U.S. GAAP, and is not necessarily indicative of sufficient cash flow to fund all of IRET's needs or its ability to service indebtedness or make distributions.

FFO applicable to common shares and Units for the three months ended October 31, 2014 increased to \$22.2 million compared to \$20.0 million for the comparable period ended October 31, 2013, an increase of 11.3%. FFO applicable to common shares and Units for the six months ended October 31, 2014 increased by 3.8% to \$41.2 million, compared to \$39.6 million for the six months ended October 31, 2013.

RECONCILIATION OF NET INCOME ATTRIBUTABLE TO  
INVESTORS REAL ESTATE TRUST TO FUNDS FROM OPERATIONS

Three Months Ended October 31,	(in thousands, except per share amounts)					
	2014			2013		
	Amount	Weighted Avg Shares and Units <sup>(2)</sup>	Per Share And Unit <sup>(3)</sup>	Amount	Weighted Avg Shares and Units <sup>(2)</sup>	Per Share And Unit <sup>(3)</sup>
Net income attributable to Investors Real Estate Trust	\$5,114			\$8,787		
Less dividends to preferred shareholders	(2,878)			(2,878)		
Net income available to common shareholders	2,236	117,034	\$ 0.02	5,909	104,861	\$ 0.06
Adjustments:						
Noncontrolling interest – Operating Partnership	363	16,261		1,226	21,852	
Depreciation and amortization <sup>(1)</sup>	17,624			17,490		
Impairment of real estate investments	3,245			57		
Gain on depreciable property sales	(1,231)			(4,698)		
Funds from operations applicable to common shares and Units	\$22,237	133,295	\$ 0.17	\$19,984	126,713	\$ 0.16

Six Months Ended October 31,	(in thousands, except per share amounts)					
	2014			2013		
	Amount	Weighted Avg Shares and Units <sup>(2)</sup>	Per Share And Unit <sup>(3)</sup>	Amount	Weighted Avg Shares and Units <sup>(2)</sup>	Per Share And Unit <sup>(3)</sup>
Net income attributable to Investors Real Estate Trust	\$4,963			\$11,865		
Less dividends to preferred shareholders	(5,757)			(5,757)		
Net income available to common shareholders	(794)	114,033	\$(0.01)	6,108	103,606	\$ 0.06
Adjustments:						
Noncontrolling interest – Operating Partnership	(39)	18,565		1,276	21,834	
Depreciation and amortization <sup>(4)</sup>	34,661			37,045		
Impairment of real estate investments	5,565			1,860		
Gain on depreciable property sales	1,762			(6,641)		
Funds from operations applicable to common shares and Units	\$41,155	132,598	\$ 0.31	\$39,648	125,440	\$ 0.32

Real estate depreciation and amortization consists of the sum of depreciation/amortization related to real estate investments and amortization related to non-real estate investments from the Condensed Consolidated Statements

(1) of Operations, totaling \$17,668 and \$17,167, and depreciation/amortization from Discontinued Operations of \$0 and \$347, less corporate-related depreciation and amortization on office equipment and other assets of \$44 and \$24, for the three months ended October 31, 2014 and 2013, respectively.

(2) UPREIT Units of the Operating Partnership are exchangeable for cash, or, at the Company's discretion, for common shares of beneficial interest on a one-for-one basis.

(3) Net income attributable to Investors Real Estate Trust is calculated on a per share basis. FFO is calculated on a per share and unit basis.

Real estate depreciation and amortization consists of the sum of depreciation/amortization related to real estate investments and amortization related to non-real estate investments from the Condensed Consolidated Statements (4) of Operations, totaling \$34,724 and \$36,167, and depreciation/amortization from Discontinued Operations of \$0 and \$933, less corporate-related depreciation and amortization on office equipment and other assets of \$63 and \$55 for the six months ended October 31, 2014 and 2013, respectively.





**DISTRIBUTIONS**

The following distributions per common share and unit were paid during the six months ended October 31 of fiscal years 2015 and 2014:

Month	Fiscal	Fiscal
	Year	Year
	2015	2014
July	\$.1300	\$.1300
October	\$.1300	\$.1300

**LIQUIDITY AND CAPITAL RESOURCES****OVERVIEW**

The Company's principal liquidity demands are maintaining distributions to the holders of the Company's common and preferred shares of beneficial interest and UPREIT Units, capital improvements and repairs and maintenance to the Company's properties, acquisition of additional properties, property development, tenant improvements and debt service and repayments.

The Company has historically met its short-term liquidity requirements through net cash flows provided by its operating activities, and, from time to time, through draws on secured and unsecured lines of credit. As of October 31, 2014, the Company had one multi-bank line of credit with a total commitment capacity of \$90.0 million, secured by mortgages on 15 Company properties. Management considers the Company's ability to generate cash from property operating activities, cash-out refinancing of existing properties and, from time to time, draws on its line of credit to be adequate to meet all operating requirements and to make distributions to its shareholders in accordance with the REIT provisions of the Internal Revenue Code. Budgeted expenditures for ongoing maintenance and capital improvements and renovations to our real estate portfolio are also generally expected to be funded from existing cash on hand, cash flow generated from property operations, cash-out refinancing of existing properties, and/or new borrowings.

However, the commercial real estate market continues to experience significant challenges including reduced tenant demand, occupancies and rental rates. In the event of deterioration in property operating results, or absent the Company's ability to successfully continue cash-out refinancing of existing properties and/or new borrowings, the Company may need to consider additional cash preservation alternatives, including scaling back development activities, capital improvements and renovations and reducing the level of distributions to shareholders.

To the extent the Company does not satisfy its long-term liquidity requirements, which consist primarily of maturities under the Company's long-term debt, construction and development activities and potential acquisition opportunities, through net cash flows provided by operating activities and its credit facilities, the Company intends to satisfy such requirements through a combination of funding sources which the Company believes will be available to it, including the issuance of UPREIT Units, additional common or preferred equity, proceeds from the sale of properties, and additional long-term secured or short-term unsecured indebtedness.

**SOURCES AND USES OF CASH**

While credit markets are currently stable and credit availability is relatively unconstrained, underwriting on commercial real estate continues to be more conservative compared to the underwriting standards employed prior to the recessionary period. We continue to expect to be able to refinance our debt maturing in the next twelve months without significant issues, but we also expect lenders to continue to employ relatively conservative underwriting regarding asset quality, occupancy levels and tenant creditworthiness. Accordingly, we continue to be cautious regarding our ability in the remainder of fiscal year 2015 to rely on cash-out refinancing at levels we had achieved prior to the recessionary period, to provide funds for investment opportunities and other corporate purposes.

Additionally, while to date there has been no material negative impact on our ability to borrow in our multi-family segment, we continue to closely monitor proposals to phase out or modify the roles of the Federal Home Loan Mortgage Corporation (Freddie Mac) and the Federal National Mortgage Association (Fannie Mae) in financing multi-family residential properties. As we have previously noted, we consider that one of the consequences of a modification in the agencies' roles could potentially be a narrowing of their lending focus away from the smaller secondary or tertiary markets which we generally target, to multi-family residential properties in major metropolitan markets. IRET obtains a majority of its multi-family debt from primarily Freddie Mac. Our current plan is to refinance a majority of our maturing multi-family debt with these two entities, so any change in their ability or willingness to

lend going forward will most likely result in higher loan costs or more constricted availability of financing for us; accordingly, we continue to closely monitor announcements regarding both firms. As of October 31, 2014 100%, or \$44.9 million, of our mortgage debt maturing in the third and fourth quarters of fiscal year 2015 is debt placed on properties in our office and healthcare segments. Of this \$44.9 million, we expect to pay off \$17.1, and we expect to refinance \$27.8 million in the third and fourth quarters of fiscal year 2015. As of October 31, 2014, approximately 3.5%, or \$3.6 million, of our mortgage debt maturing in the next twelve months is debt placed on multi-family residential assets, and approximately 96.5%, or \$100.0 million, is debt placed on properties in our office and healthcare segments.

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The Company's revolving, multi-bank line of credit with First International Bank and Trust, Watford City, North Dakota, as lead bank, had, as of October 31, 2014, lending commitments of \$90.0 million. As of October 31, 2014, the line of credit was secured by mortgages on 15 properties; under the terms of the line of credit, properties may be added and removed from the collateral pool with the agreement of the lenders. Participants in this credit facility as of October 31, 2014 included, in addition to First International Bank, the following financial institutions: The Bank of North Dakota; First Western Bank and Trust; Dacotah Bank; MidCountry Bank; Highland Bank; American State Bank & Trust Company; Town & Country Credit Union and United Community Bank. As of October 31, 2014, the line of credit had an interest rate of 4.75% and a minimum outstanding principal balance requirement of \$17.5 million, and as of October 31, 2014 and April 30, 2014, the Company had borrowed \$40.5 million and \$22.5 million, respectively. The facility includes covenants and restrictions requiring the Company to achieve on a fiscal and calendar quarter basis a debt service coverage ratio on borrowing base collateral of 1.25x in the aggregate and 1.00x on individual assets in the collateral pool, and the Company is also required to maintain minimum depository account(s) totaling \$6.0 million with First International, of which \$1.5 million is to be held in a non-interest bearing account. As of October 31, 2014, the Company believes it was in compliance with the facility covenants.

The Company maintains compensating balances, not restricted as to withdrawal, with several financial institutions in connection with financing received from those institutions and/or to ensure future credit availability. At October 31, 2014, the Company's compensating balances totaled \$10.7 million and consisted of the following: First International Bank, Watford City, North Dakota, deposit of \$6.1 million; Private Bank, Minneapolis, Minnesota, deposit of \$2.0 million; Associated Bank, Green Bay, Wisconsin, deposit of \$600,000; American National Bank, Omaha, Nebraska, deposit of \$400,000; Dacotah Bank, Minot, North Dakota, deposit of \$350,000; United Community Bank, Minot, North Dakota, deposit of \$275,000; Peoples State Bank of Velva, North Dakota, deposit of \$225,000, Commerce Bank, a Minnesota Banking Corporation, deposit of \$100,000, and Bremer Bank, Saint Paul, Minnesota, deposit of \$650,000. The deposits at United Community Bank and a portion of the deposit at Dacotah Bank are held as certificates of deposit and comprise the approximately \$329,000 in other investments on the Condensed Consolidated Balance Sheets. The certificates of deposit have remaining terms of less than two years and the Company intends to hold them to maturity.

Current anticipated total project costs for development projects in progress at October 31, 2014 total approximately \$355.3 million (including costs incurred by project joint venture entities), of which approximately \$211.8 million has been incurred as of October 31, 2014. As of October 31, 2014, the Company's Operating Partnership (or the project joint venture entities), had entered into construction loans totaling approximately \$189.2 million for development projects in progress. In addition to current planned expenditures for development projects in progress, as of October 31, 2014, the Company is committed to fund \$9.1 million in tenant improvements, within approximately the next 12 months.

The issuance of UPREIT Units for property acquisitions continues to be an expected source of capital for the Company. In the three and six months ended October 31, 2014, approximately 11,000 Units, valued at issuance at \$100,000 were issued in connection with the Company's acquisition of property. In the three months ended October 31, 2013, approximately 22,000 Units, valued at issuance at \$200,000 were issued in connection with the Company's acquisition of property. During the six months ended October 31, 2013, approximately 361,000 Units, valued at issuance at \$3.5 million were issued in connection with the Company's acquisition of property.

The Company has a Distribution Reinvestment and Share Purchase Plan ("DRIP"). The DRIP provides common shareholders and UPREIT Unitholders of the Company an opportunity to invest their cash distributions in common shares of the Company, and purchase additional shares through voluntary cash contributions, at a discount (currently 3%) from the market price. The maximum monthly voluntary cash contribution permitted without prior Company approval is currently \$10,000. The Company can issue waivers to DRIP participants to provide for investments in excess of the \$10,000 maximum monthly investment. There were no waivers issued during the three months ended October 31, 2014 and 2013. During the six months ended October 31, 2014, the Company issued approximately 926,000 shares at an average price of \$8.64 per share pursuant to such waivers, for total net proceeds to the Company of \$8.0 million. During the six months ended October 31, 2013, the Company issued 1.4 million shares at an average price of \$8.88 per share pursuant to such waivers, for total net proceeds to the Company of \$12.0 million.

Cash and cash equivalents at October 31, 2014 totaled \$53.0 million, compared to \$68.7 million at October 31, 2013, a decrease of \$15.7 million. Net cash provided by operating activities for the six months ended October 31, 2014

increased by \$16.0 million, primarily due to an increase in adjusted net income and the collection of insurance proceeds in accounts receivable, compared to the six months ended October 31, 2013. Net cash used by investing activities increased by \$65.9 million for the six months ended October 31, 2014 compared to the six months ended October 31, 2013, primarily due to an increase in payments for development and redevelopment of real estate assets and a decrease in proceeds from the sale of properties. Net cash provided by financing activities was \$61.0 million for the six months ended October 31, 2014, compared to \$19.9 million used by financing activities in the comparable period of the prior fiscal year. This change was primarily due to an increase in proceeds from construction debt and the Company's revolving line of credit.

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## FINANCIAL CONDITION

**Mortgage Loan Indebtedness.** Mortgage loan indebtedness increased by \$15.5 million as of October 31, 2014, compared to April 30, 2014, due to new loans and the assumption of existing mortgages in conjunction with the acquisition of property. As of October 31, 2014, approximately 93.7% of the Company's \$1.0 billion of mortgage debt is at fixed rates of interest, with staggered maturities. This limits the Company's exposure to changes in interest rates, which minimizes the effect of interest rate fluctuations on the Company's results of operations and cash flows. As of October 31, 2014, the weighted average rate of interest on the Company's mortgage debt was 5.26%, compared to 5.37% on April 30, 2014.

**Property Owned.** Property owned was \$2.0 billion at October 31, 2014 and April 30, 2014. During the six months ended October 31, 2014, the Company acquired seven additional investment properties and disposed of seven properties, as described above in the "Property Acquisitions and Dispositions" subsection of this Management's Discussion and Analysis of Financial Condition and Results of Operations.

**Cash and Cash Equivalents.** Cash and cash equivalents on hand on October 31, 2014 were \$53.0 million, compared to \$47.3 million on April 30, 2014.

**Other Investments.** Other investments, consisting of certificates of deposit held primarily for compensating balances, totaled approximately \$329,000 on October 31, 2014 and on April 30, 2014.

**Operating Partnership Units.** Outstanding units in the Operating Partnership decreased to 14.7 million Units at October 31, 2014 compared to 21.1 million Units outstanding at April 30, 2014. The decrease resulted primarily from the conversion of Units in exchange for common shares.

**Common and Preferred Shares of Beneficial Interest.** Common shares of beneficial interest outstanding on October 31, 2014 totaled 119.8 million, compared to 109.0 million outstanding on April 30, 2014. The Company issued common shares pursuant to its Distribution Reinvestment and Share Purchase Plan, consisting of 4.2 million common shares issued during the six months ended October 31, 2014, for a total value of \$34.8 million. Conversions of 6.4 million UPREIT Units to common shares, for a total of \$37.7 million in IRET shareholders' equity, also increased the Company's common shares of beneficial interest outstanding during the six months ended October 31, 2014.

## Item 6. Exhibits

See the exhibit index attached hereto, which is incorporated by reference herein. The following exhibits listed on the exhibit index are filed as exhibits to the Registrant's Quarterly Report on Form 10-Q/A (Amendment No. 1) for the quarter ended October 31, 2014.

### Exhibit No. Description

31.1 Certification by Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification by Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

INVESTORS REAL ESTATE TRUST

(Registrant)

/s/ Timothy P. Mihalick

Timothy P. Mihalick

President and Chief Executive Officer

/s/ Diane K. Bryantt

Diane K. Bryantt

Executive Vice President and Chief Financial Officer

Date: December 23, 2014

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Exhibit Index

Exhibit No.	Description
12	Calculation of Ratio of Earnings to Fixed Charges and Earnings to Combined Fixed Charges and Preferred Share Distributions (filed as Exhibit 12 to the Company's Quarterly Report on Form 10-Q filed December 10, 2014, and incorporated herein by reference).
<u>31.1</u>	Certification by Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
<u>31.2</u>	Certification by Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32	Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed as Exhibit 32 to the Company's Quarterly Report on Form 10-Q filed December 10, 2014 and incorporated herein by reference).
101	The following materials from our Quarterly Report on Form 10-Q for the quarter ended October 31, 2014 formatted in eXtensible Business Reporting Language ("XBRL"): (i) the Condensed Consolidated Balance Sheets, (ii) the Condensed Consolidated Statements of Operations, (ii) the Condensed Consolidated Statements of Equity, (iv) the Condensed Consolidated Statements of Cash Flows, and (v) notes to these condensed consolidated financial statements (submitted electronically as Exhibit 101 to the Company's Quarterly Report on Form 10-Q filed December 10, 2014).

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