INVESTORS REAL ESTATE TRUST
Form 10-Q
December 10, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C.
20549

Form 10-Q

Quarterly Report Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

For Quarter Ended October 31, 2007

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 incorporation or organization)	(I.R.S. Employer Identification No.)

Post Office Box 1988
12 Main Street South
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 þ **No** o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (check one):

Large accelerated filer o **Accelerated filer** þ **Non-accelerated filer** o

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

Yes o **No** þ

Registrant is a North Dakota Real Estate Investment Trust. As of December 5, 2007, it had 56,487,690 common shares of beneficial interest outstanding.

TABLE OF CONTENTS

Table of Contents

PART I

ITEM 1. FINANCIAL STATEMENTS - SECOND QUARTER - FISCAL 2008

INVESTORS REAL ESTATE TRUST AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS *(unaudited)*

	(in thousands)	
	October 31, 2007	**April 30, 2007**
ASSETS		
Real estate investments		
Property owned	$ 1,529,063	$ 1,489,287
Less accumulated depreciation	(199,682)	(180,544)
	1,329,381	1,308,743
Unimproved land	14,454	7,392
Mortgage loan receivable, net of allowance	391	399
Total real estate investments	1,344,226	1,316,534
Other assets		
Cash and cash equivalents	89,302	44,516
Marketable securities available-for-sale	2,090	2,048
Receivable arising from straight-lining of rents, net of allowance	13,430	12,558
Accounts receivable, net of allowance	2,279	3,171
Real estate deposits	1,601	735
Prepaid and other assets	1,445	568
Intangible assets, net of accumulated amortization	30,457	33,240
Tax, insurance, and other escrow	6,539	7,222
Property and equipment, net	1,486	1,458
Goodwill	1,397	1,397
Deferred charges and leasing costs, net	12,624	11,942
TOTAL ASSETS	$ 1,506,876	$ 1,435,389
LIABILITIES AND SHAREHOLDERS’ EQUITY		
LIABILITIES		
Accounts payable and accrued expenses	$ 22,974	$ 28,995
Mortgages payable	967,612	951,139
Other	1,161	896
TOTAL LIABILITIES	991,747	981,030
COMMITMENTS AND CONTINGENCIES (NOTE 6)		
MINORITY INTEREST IN PARTNERSHIPS	12,781	12,925
MINORITY INTEREST OF UNITHOLDERS IN OPERATING PARTNERSHIP	154,274	156,465
(20,114,028 units at October 31, 2007 and 19,981,259 units at April 30, 2007)		

SHAREHOLDERS’ EQUITY		
Preferred Shares of Beneficial Interest *(Cumulative redeemable preferred shares, no par value, 1,150,000 shares issued and outstanding at October 31, 2007 and April 30, 2007, aggregate liquidation preference of $28,750,000)*	27,317	27,317
Common Shares of Beneficial Interest *(Unlimited authorization, no par value, 56,418,765 shares issued and outstanding at October 31, 2007, and 48,570,461 shares issued and outstanding at April 30, 2007)*	429,236	354,495
Accumulated distributions in excess of net income	(108,474)	(96,827)
Accumulated other comprehensive loss	(5)	(16)
Total shareholders’ equity	348,074	284,969
TOTAL LIABILITIES AND SHAREHOLDERS’ EQUITY	$ 1,506,876	$ 1,435,389

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

Table of Contents

INVESTORS REAL ESTATE TRUST AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS *(unaudited)*
for the three months and six months ended October 31, 2007 and 2006

	Three Months Ended October 31		Six Months Ended October 31	
	(in thousands, except per share data)			
	2007	**2006**	**2007**	**2006**
REVENUE				
Real estate rentals	$ 44,606	$ 40,184	$ 88,766	$ 76,535
Tenant reimbursement	9,668	8,454	19,150	16,445
TOTAL REVENUE	54,274	48,638	107,916	92,980
OPERATING EXPENSE				
Interest	15,687	14,975	31,129	27,906
Depreciation/amortization related to real estate investments	12,177	11,016	24,382	20,945
Utilities	4,306	3,754	8,262	6,631
Maintenance	6,026	5,463	12,037	10,437
Real estate taxes	6,471	5,498	12,910	10,813
Insurance	607	579	1,258	1,148
Property management expenses	3,675	3,469	7,523	6,720
Administrative expenses	1,101	989	2,223	1,897
Advisory and trustee services	166	68	240	140
Other operating expenses	457	335	710	615
Amortization related to non-real estate investments	340	241	683	458
TOTAL OPERATING EXPENSE	51,013	46,387	101,357	87,710
Operating income	3,261	2,251	6,559	5,270
Interest income	339	537	693	703
Other non-operating income	92	148	373	260
Income before minority interest and discontinued operations and gain (loss) on sale of other investments	3,692	2,936	7,625	6,233
Gain (loss) on sale of other investments	3	(36)	2	(36)
Minority interest portion of operating partnership income	(859)	(636)	(1,846)	(1,248)
Minority interest portion of other partnerships' (income) loss	0	(37)	36	(25)
Income from continuing operations	2,836	2,227	5,817	4,924
Discontinued operations, net of minority interest	0	1,281	0	1,697
NET INCOME	2,836	3,508	5,817	6,621
Dividends to preferred shareholders	(593)	(593)	(1,186)	(1,186)
NET INCOME AVAILABLE TO COMMON SHAREHOLDERS	$ 2,243	$ 2,915	$ 4,631	$ 5,435
Earnings per common share from continuing operations	$ .04	$ .03	$ .09	$ .08
Earnings per common share from discontinued operations	.00	.03	.00	.03

NET INCOME PER COMMON SHARE BASIC AND DILUTED	$ .04	$ .06	$ .09	$ .11

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

Table of Contents

INVESTORS REAL ESTATE TRUST AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY *(unaudited)*
for the six months ended October 31, 2007

(in thousands)

	NUMBER OF PREFERRED SHARES	PREFERRED SHARES	NUMBER OF COMMON SHARES	COMMON SHARES	ACCUMULATED DISTRIBUTIONS IN EXCESS OF NET INCOME	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	TOTAL SHAREHOLDERS' EQUITY
Balance May 1, 2007	1,150	$ 27,317	48,570	$354,495	$ (96,827)	$ (16)	$ 284,969
Comprehensive Income							
Net income					5,817		5,817
Unrealized loss on securities available-for-sale						11	11
Total comprehensive income							5,828
Distributions common shares					(16,278)		(16,278)
Distributions preferred shares					(1,186)		(1,186)
Distribution reinvestment plan			525	5,368			5,368
Sale of shares			6,905	66,405			66,405
Redemption of units for common shares			419	2,973			2,973
Fractional shares repurchased				(5)			(5)
Balance October 31, 2007	1,150	$ 27,317	56,419	$429,236	$ (108,474)	$ (5)	$ 348,074

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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Table of Contents

INVESTORS REAL ESTATE TRUST AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS *(unaudited)*
for the six months ended October 31, 2007 and 2006

	(in thousands)	
	2007	**2006**
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	$ 5,817	$ 6,621
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	25,432	22,058
Minority interest portion of income	1,810	1,796
Gain on sale of real estate, land and other investments	(2)	(2,637)
Loss on impairment of real estate investments	0	520
Bad debt expense	543	145
Changes in other assets and liabilities:		
Increase in receivable arising from straight-lining of rents	(928)	(1,380)
Decrease (increase) in accounts receivable	379	(798)
Increase in prepaid and other assets	(877)	(1,156)
Decrease in tax, insurance and other escrow	683	2,809
Increase in deferred charges and leasing costs	(1,871)	(3,100)
(Decrease) increase in accounts payable, accrued expenses, and other liabilities	(5,973)	324
Net cash provided by operating activities	25,013	25,202
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of marketable securities available-for-sale	6	845
Net payments of real estate deposits	(867)	(3,704)
Principal proceeds on mortgage loans receivable	12	11
Purchase of marketable securities available-for-sale	(37)	0
Proceeds from sale of real estate and other investments	298	13,174
Insurance proceeds received	387	0
Payments for investment properties from insurance proceeds	(322)	0
Payments for acquisitions and improvements of real estate investments	(32,819)	(121,287)
Net cash used by investing activities	(33,342)	(110,961)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from sale of common shares, net of issue costs	66,405	175
Proceeds from mortgages payable	17,438	229,014
Proceeds from revolving lines of credit	0	15,500
Proceeds from minority partner	0	53
Repurchase of fractional shares and minority interest units	(5)	(6)
Distributions paid to common shareholders, net of reinvestment	(11,304)	(10,157)
Distributions paid to preferred shareholders	(1,186)	(1,186)
Distributions paid to unitholders of operating partnership	(6,320)	(4,237)
Distributions paid to other minority partners	(108)	(49)
Redemption of investment certificates	0	(1,660)
Principal payments on mortgages payable	(11,765)	(72,261)
Principal payments on revolving lines of credit and other debt	(40)	(19,040)
Net cash provided by financing activities	53,115	136,146
NET INCREASE IN CASH AND CASH EQUIVALENTS	44,786	50,387

CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		44,516		17,485
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$	89,302	$	67,872

6

Table of Contents

INVESTORS REAL ESTATE TRUST AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS *(unaudited, continued)*
for the six months ended October 31, 2007 and 2006

	(in thousands)	
	2007	**2006**
SUPPLEMENTARY SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES FOR THE PERIOD		
Distribution reinvestment plan	$ 4,974	$ 5,381
UPREIT distribution reinvestment plan	394	404
Real estate investment acquired through assumption of mortgage loans payable and accrual of costs	10,800	13,166
Assets acquired through the issuance of minority interest units in the operating partnership	5,650	56,791
Operating partnership units converted to shares	2,973	1,294
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the period for:		
Interest on mortgages	30,656	26,546
Interest other	19	892
	$ 30,675	$ 27,438

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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Table of Contents

INVESTORS REAL ESTATE TRUST AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)*
for the six months ended October 31, 2007 and 2006

NOTE 1 • ORGANIZATION

Investors Real Estate Trust ("IRET" or the "Company") is a self-advised real estate investment trust engaged in acquiring, owning and leasing multi-family and commercial real estate. IRET has elected to be taxed as a Real Estate Investment Trust ("REIT") under Sections 856-860 of the Internal Revenue Code of 1986, as amended. REITs are subject to a number of organizational and operational requirements, including a requirement to distribute 90% of ordinary taxable income to shareholders, and, generally, are not subject to federal income tax on net income. IRET's multi-family residential properties and commercial properties are located mainly in the states of North Dakota and Minnesota, but also in the states of Colorado, Idaho, Iowa, Kansas, Montana, Missouri, Nebraska, South Dakota, Texas, Michigan and Wisconsin. As of October 31, 2007, IRET owned 69 multi-family residential properties with 9,397 apartment units and 152 commercial properties, consisting of office, medical, industrial and retail properties, totaling 10.6 million net rentable square feet. IRET conducts a majority of its business activities through its consolidated operating partnership, IRET Properties, a North Dakota Limited Partnership (the "Operating Partnership"), as well as through a number of other consolidated subsidiary entities.

All references to IRET or the Company refer to Investors Real Estate Trust and its consolidated subsidiaries.

NOTE 2 • BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

The accompanying condensed consolidated financial statements include the accounts of IRET and all its subsidiaries in which it maintains a controlling interest. All intercompany balances and transactions are eliminated in consolidation. The Company's fiscal year ends April 30th.

The accompanying condensed consolidated financial statements include the accounts of IRET and its interest in the Operating Partnership. The Company's interest in the Operating Partnership was 73.7% and 70.9%, respectively, as of October 31, 2007 and April 30, 2007. The limited partners have a redemption option that they may exercise. Upon exercise of the redemption option by the limited partners, IRET has the choice of redeeming the limited partners' interests ("Units") for IRET common shares of beneficial interest, on a one-for-one basis, or making a cash payment to the unitholder. The redemption generally may be exercised by the limited partners at any time after the first anniversary of the date of the acquisition of the Units (provided, however, that in general not more than two redemptions by a limited partner may occur during each calendar year, and each limited partner may not exercise the redemption for less than 1,000 Units, or, if such limited partner holds less than 1,000 Units, for all of the Units held by such limited partner). The Operating Partnership and some limited partners have contractually agreed to a holding period of greater than one year and/or a greater number of redemptions during a calendar year.

The condensed consolidated financial statements also reflect the ownership by the Operating Partnership of certain joint venture entities in which the Operating Partnership has a general partner or controlling interest. These entities are consolidated into IRET's other operations, with minority interests reflecting the minority partners' share of ownership and income and expenses.

UNAUDITED INTERIM FINANCIAL STATEMENTS

The interim condensed consolidated financial statements of IRET have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and the applicable rules and regulations of the Securities and Exchange Commission ("SEC"). Accordingly, certain disclosures accompanying annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America are omitted. The year-end balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America. In the opinion of management, all adjustments, consisting solely of normal recurring adjustments, necessary for the fair presentation of the Company's financial position, results of operations and cash flows for the interim periods have been included.

The current period's results of operations are not necessarily indicative of results which ultimately may be achieved for the year. The interim condensed consolidated financial statements and notes thereto should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended April 30, 2007, filed with the SEC.

Table of Contents

RECLASSIFICATIONS

Certain previously reported amounts have been reclassified to conform to the current financial statement presentation. The Company reports, in discontinued operations, the results of operations of a property that has either been disposed of or is classified as held for sale and the related gains or losses, and as a result of discontinued operations, reclassifications of prior year numbers have been made.

RECENT ACCOUNTING PRONOUNCEMENTS

In February 2007, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* ("SFAS 159"). SFAS 159 permits entities to irrevocably elect fair value on a contract-by-contract basis as the initial and subsequent measurement attribute for many financial assets and liabilities and certain other items including property and casualty insurance contracts. SFAS 159 is effective for the Company on May 1, 2008. We are currently assessing the impact of adopting SFAS 159.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*, ("SFAS 157"), which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. SFAS 157 is effective for the Company on May 1, 2008. We are currently evaluating the impact of adopting
SFAS 157.

In June 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109* (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements in accordance with SFAS No. 109, *Accounting for Income Taxes*. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48, which was adopted by the Company effective May 1, 2007, did not have a material impact on the Company's cash flows, results of operations, financial position or liquidity.

NOTE 3 • EARNINGS PER SHARE

Basic earnings per share is computed by dividing net income available to common shareholders by the weighted average number of common shares outstanding during the period. The Company has no outstanding options, warrants, convertible stock or other contractual obligations requiring issuance of additional common shares that would result in a dilution of earnings. While Units can be exchanged for common shares on a one-for-one basis after a minimum holding period of one year, the exchange of Units for common shares has no effect on net income per share, as Unitholders and common shareholders effectively share equally in the net income of the Operating Partnership. The following table presents a reconciliation of the numerator and denominator used to calculate basic and diluted earnings per share reported in the condensed consolidated financial statements for the three months and six months ended October 31, 2007 and 2006:

	Three Months Ended October 31		**Six Months Ended October 31**	
	(in thousands, except per share data)			
	2007	**2006**	**2007**	**2006**

NUMERATOR				
Income from continuing operations	$ 2,836	$ 2,227	$ 5,817	$ 4,924
Discontinued operations, net	0	1,281	0	1,697
Net income	2,836	3,508	5,817	6,621
Dividends to preferred shareholders	(593)	(593)	(1,186)	(1,186)
Numerator for basic earnings per share net income available to common shareholders	2,243	2,915	4,631	5,435
Minority interest portion of operating partnership income	859	1,038	1,846	1,771
Numerator for diluted earnings per share	$ 3,102	$ 3,953	$ 6,477	$ 7,206
DENOMINATOR				
Denominator for basic earnings per share - weighted average shares	49,675	47,408	49,169	47,225
Effect of convertible operating partnership units	20,483	15,757	20,383	14,760
Denominator for diluted earnings per share	70,158	63,165	69,552	61,985
Earnings per common share from continuing operations basic and diluted	$ .04	$ .03	$ .09	$ .08
Earnings per common share from discontinued operations basic and diluted	.00	.03	.00	.03
NET INCOME PER COMMON SHARE BASIC AND DILUTED	$ .04	$ .06	$ .09	$ .11

Table of Contents

NOTE 4 • SHAREHOLDERS' EQUITY

During the second quarter of fiscal year 2008, the Company sold 6,900,000 common shares in a public offering, at an offering price of $10.20 per share before underwriting discounts and commissions. Net proceeds of the offering (after deducting underwriting discounts and offering expenses) included in shareholders' equity totaled $66.4 million. In addition, as of October 31, 2007, 419,284 Units have been converted to common shares during fiscal year 2008, with a total value of $3.0 million included in shareholders' equity, and approximately 4,406 common shares have been issued under the Company's 401(k) plan, with a total value of $44,255 included in shareholders' equity.

NOTE 5 • SEGMENT REPORTING

IRET reports its results in five reportable segments: multi-family residential properties, and commercial office, medical (including senior housing), industrial and retail properties. Our reportable segments are aggregations of similar properties. The accounting policies of each of these segments are the same as those described in Note 2. We disclose segment information in accordance with SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Disclosures* ("SFAS 131"). SFAS 131 requires that segment disclosures present the measure(s) used by the chief operating decision maker for purposes of assessing segment performance.

The revenues and net operating income for these reportable segments are summarized as follows for the three month and six month periods ended October 31, 2007 and 2006, along with reconciliations to the condensed consolidated financial statements. Segment assets are also reconciled to Total Assets as reported in the condensed consolidated financial statements.

(in thousands)

Three Months Ended October 31, 2007	**Multi-Family Residential**	**Commercial-Office**	**Commercial-Medical**	**Commercial-Industrial**	**Commercial-Retail**	**Total**
Real estate revenue	$ 18,329	$ 20,613	$ 8,920	$ 3,027	$ 3,385	$ 54,274
Real estate expenses	8,706	8,723	2,043	626	987	21,085
Net operating income	$ 9,623	$ 11,890	$ 6,877	$ 2,401	$ 2,398	33,189
Interest						(15,687)
Depreciation/amortization						(12,517)
Administrative, advisory and trustee fees						(1,267)
Operating expenses						(457)
Non-operating income						431
Income before minority interest and discontinued operations and (loss) gain on sale of other investments						$ 3,692

(in thousands)

Three Months Ended October 31, 2006	**Multi-Family Residential**	**Commercial-Office**	**Commercial-Medical**	**Commercial-Industrial**	**Commercial-Retail**	**Total**
Real estate revenue	$ 16,883	$ 17,795	$ 8,638	$ 1,844	$ 3,478	$ 48,638
Real estate expenses	7,769	7,549	2,178	195	1,072	18,763
Net operating income	$ 9,114	$ 10,246	$ 6,460	$ 1,649	$ 2,406	29,875
Interest						(14,975)
Depreciation/amortization						(11,257)

Administrative, advisory and trustee fees	(1,057)
Operating expenses	(335)
Non-operating income	685
Income before minority interest and discontinued operations and (loss) gain on sale of other investments	$ 2,936

Table of Contents

			(in thousands)			
Six Months Ended October 31, 2007	**Multi-Family Residential**	**Commercial-Office**	**Commercial-Medical**	**Commercial-Industrial**	**Commercial-Retail**	**Total**
Real estate revenue	$ 36,110	$ 41,215	$ 17,885	$ 5,689	$ 7,017	$ 107,916
Real estate expenses	17,016	17,444	4,316	1,125	2,089	41,990
Net operating income	$ 19,094	$ 23,771	$ 13,569	$ 4,564	$ 4,928	65,926
Interest						(31,129)
Depreciation/amortization						(25,065)
Administrative, advisory and trustee fees						(2,463)
Operating expenses						(710)
Non-operating income						1,066
Income before minority interest and discontinued operations and (loss) gain on sale of other investments						$ 7,625

			(in thousands)			
Six Months Ended October 31, 2006	**Multi-Family Residential**	**Commercial-Office**	**Commercial-Medical**	**Commercial-Industrial**	**Commercial-Retail**	**Total**
Real estate revenue	$ 32,865	$ 32,624	$ 17,088	$ 3,579	$ 6,824	$ 92,980
Real estate expenses	15,346	13,507	4,288	503	2,105	35,749
Net operating income	$ 17,519	$ 19,117	$ 12,800	$ 3,076	$ 4,719	57,231
Interest						(27,906)
Depreciation/amortization						(21,403)
Administrative, advisory and trustee fees						(2,037)
Operating expenses						(615)
Non-operating income						963
Income before minority interest and discontinued operations and (loss) gain on sale of other investments						$ 6,233

Segment Assets and Accumulated Depreciation

Segment assets are summarized as follows as of October 31, 2007, and April 30, 2007, along with reconciliations to the condensed consolidated financial statements:

			(in thousands)			
	Multi-Family	**Commercial-**	**Commercial-**	**Commercial-**	**Commercial-**	
As of October 31, 2007	**Residential**	**Office**	**Medical**	**Industrial**	**Retail**	**Total**
Segment Assets						
Property owned	$ 496,577	$ 540,012	$ 279,764	$ 96,743	$ 115,967	$ 1,529,063
Less accumulated depreciation/amortization	(96,044)	(51,005)	(28,300)	(9,328)	(15,005)	(199,682)
Total property owned	$ 400,533	$ 489,007	$ 251,464	$ 87,415	$ 100,962	1,329,381
Cash						89,302
Marketable securities						2,090
Receivables and other assets						71,258
Unimproved land						14,454

Mortgage receivables	391
Total Assets	$1,506,876

Table of Contents

				(in thousands)			
	Multi-Family	**Commercial-**	**Commercial-**	**Commercial-**	**Commercial-**		
As of April 30, 2007	**Residential**	**Office**	**Medical**	**Industrial**	**Retail**	**Total**
Segment Assets						
Property owned	$ 489,644	$ 536,431	$ 274,779	$ 75,257	$ 113,176	$ 1,489,287
Less accumulated depreciation/amortization	(89,541)	(44,204)	24,787	(8,257)	(13,755)	(180,544)
Total property owned	$ 400,103	$ 492,227	$ 249,992	$ 67,000	$ 99,421	1,308,743
Cash						44,516
Marketable securities						2,048
Receivables and other assets						72,291
Unimproved land						7,392
Mortgage receivables						399
Total Assets						$ 1,435,389

NOTE 6 • COMMITMENTS AND CONTINGENCIES

Litigation. IRET is involved in various lawsuits arising in the normal course of business. Management believes that such matters will not have a material effect on the Company's financial statements.

Insurance. IRET carries insurance coverage on its properties in amounts and types that the Company believes are customarily obtained by owners of similar properties and are sufficient to achieve IRET's risk management objectives.

Purchase Options. The Company has granted options to purchase certain Company properties to tenants in these properties, under lease agreements. In general, the options grant the tenant the right to purchase the property at the greater of such property's appraised value or an annual compounded increase of 2% to 2.5% of the initial cost of the property to the Company. As of October 31, 2007, the total property cost of the 17 properties subject to purchase options was approximately $127.9 million, and the total gross rental revenues from these properties were approximately $3.2 million and $6.4 million, respectively for the three and six months ended October 31, 2007.

Environmental Matters. Under various federal, state and local laws, ordinances and regulations, a current or previous owner or operator of real estate may be liable for the costs of removal of, or remediation of, certain hazardous or toxic substances in, on, around or under the property. While IRET currently has no knowledge of any violation of environmental laws, ordinances or regulations at any of its properties, there can be no assurance that areas of contamination will not be identified at any of the Company's properties, or that changes in environmental laws, regulations or cleanup requirements would not result in significant costs to the Company.

Restrictions on Taxable Dispositions. Approximately 131 of IRET's properties, consisting of approximately 6.5 million square feet of the Company's combined commercial segments' properties and 4,008 apartment units, are subject to restrictions on taxable dispositions under agreements entered into with some of the sellers or contributors of the properties. The real estate investment amount of these properties (net of accumulated depreciation) was approximately $779.1 million at October 31, 2007. The restrictions on taxable dispositions are effective for varying periods. The terms of these agreements generally prevent the Company from selling the properties in taxable transactions. The Company does not believe that the agreements materially affect the conduct of the Company's business or decisions whether to dispose of restricted properties during the restriction period because the Company generally holds these and the Company's other properties for investment purposes, rather than for sale. Historically, however, where IRET has deemed it to be in the shareholders' best interests to dispose of restricted properties, it has done so through transactions structured as tax-deferred transactions under Section 1031 of the Internal Revenue Code.

Joint Venture Buy/Sell Options. Certain of IRET's joint venture agreements contain buy/sell options in which each party under certain circumstances has the option to acquire the interest of the other party, but do not generally require that the Company buy its partners' interests. IRET has one joint venture which allows IRET's unaffiliated partner, at its election, to require that IRET buy its interest at a purchase price to be determined by an appraisal conducted in accordance with the terms of the agreement, or at a negotiated price. The Company is not aware of any intent of the partners to exercise these options.

Development Projects. The Company has certain funding commitments under contracts for property development and renovation projects. As of October 31, 2007, IRET's funding commitments include the following:

Table of Contents

Southdale Medical Building Expansion Project: In July 2007, the Company signed a lease with an anchor tenant committing the Company to construct an approximately 26,000 square foot addition to the Company's existing Southdale Medical Building located in Edina, Minnesota. The estimated cost of this expansion project is approximately $7.5 million, with an additional approximately $2.0 million in relocation, tenant improvement and leasing costs expected to be incurred to relocate tenants in the existing facility. Construction began in September 2007, and the expansion project is scheduled for completion in July 2008. As of October 31, 2007, the Company has funded approximately $770,000 in construction costs for this expansion project.

IRET Corporate Plaza: During fiscal year 2007, the Company purchased an unimproved parcel of land in Minot, North Dakota for approximately $1.8 million. The Company is in the preliminary stages of construction of a mixed-use project for this site, to consist of approximately 67 apartments and 60,100 rentable square feet of office and retail space. The Company currently expects that it will move its Minot, North Dakota offices to this location, occupying approximately one-third of the proposed office/retail space. Current estimates are that the project would be completed in the second quarter of the Company's fiscal year 2009, at a total cost of approximately $17.8 million. However, because further design changes to the project are possible, the cost estimates are not yet firm, and no assurances can be given that this project will be completed as currently proposed. As of October 31, 2007, the Company has funded approximately $3.3 million of the estimated construction cost of this project.

2828 Chicago Avenue Medical Building: In fiscal year 2006, IRET purchased an approximately 55,000 square foot, five-story medical office building located in Minneapolis, Minnesota. During fiscal year 2007, IRET committed to construct an approximately 56,000 square foot medical office building adjacent to the existing structure, and an adjoining parking ramp, with a planned project completion date of August 2008 and an estimated total project cost of $15.7 million. As of July 2007, approximately 60% of this new medical office building has been pre-leased to an anchor tenant. Construction on the project began in August 2007, and as of October 31, 2007, the Company has paid approximately $2.2 million in construction costs.

Cottonwood Apartments: During fiscal year 2007, the Company began construction of a multi-family residential property adjacent to three existing apartment buildings owned by the Company in Bismarck, North Dakota. The 67-unit Cottonwood IV apartment complex is expected to cost approximately $6.1 million to construct, and is targeted for completion in the third quarter of fiscal year 2008. As of October 31, 2007, the Company has funded approximately $4.4 million of the estimated construction cost of this project.

Construction interest capitalized for the three month periods ended October 31, 2007 and 2006, respectively, was $22,765 and $14,939 for construction projects completed and in progress. Construction interest capitalized for the six month periods ended October 31, 2007 and 2006, respectively, was $30,520 and $17,774 for construction projects completed and in progress.

Pending Acquisitions and Dispositions. During the second quarter of fiscal year 2008, the Company signed purchase agreements to acquire a portfolio of six medical office buildings located in the Minneapolis/St. Paul metropolitan area for approximately $52.0 million. In regard to three of the six buildings, the Company would be acquiring leasehold interests only. We expect to assume the sellers' existing debt financing of approximately $29.0 million, and pay the approximately $23.0 million balance in cash and/or UPREIT units. The purchase of these properties is subject to the satisfactory completion by us of due diligence and the satisfaction of other customary closing conditions, and there can be no assurances that these proposed acquisitions will be completed on the general terms described above, or at all. Also during the second quarter of fiscal year 2008, the Company signed a purchase agreement to acquire a multi-family residential apartment complex in Omaha, Nebraska for a purchase price of approximately $4.7 million, payable in cash and/or UPREIT units. This proposed acquisition is subject to various closing conditions and contingencies, and no assurances can be given that this transaction will be completed.

The tenant in four of the Company's Edgewood Vista senior housing facilities, located in, respectively, Fremont, Nebraska; Hastings, Nebraska; Omaha, Nebraska and Kalispell, Montana, has exercised its options to purchase these properties. Under the terms of the options, the sale prices for the properties, totaling approximately $3.1 million, were determined on the basis of independent appraisals. These dispositions are subject to various closing conditions and contingencies, and no assurances can be given that these proposed transactions will be completed.

NOTE 7 • DISCONTINUED OPERATIONS

SFAS No. 144, *Accounting for the Impairment or Disposal of Long Lived Assets*, requires the Company to report in discontinued operations the results of operations of a property that has either been disposed of or is classified as held for sale. It also requires that any gains or losses from the sale of a property be reported in discontinued operations. There were no properties classified as discontinued operations during the six months ended October 31, 2007. The Company sold an assisted living facility and a small retail property during the second quarter of fiscal year 2007. The following information shows the effect on net income, net of minority interest, and the gains or losses from the sale of properties classified as discontinued operations.

Table of Contents

	Three Months Ended October 31		**Six Months Ended October 31**	
	(in thousands)			
	2006		**2006**	
REVENUE				
Real estate rentals	$	367	$	914
Tenant reimbursements		19		35
TOTAL REVENUE		386		949
OPERATING EXPENSE				
Interest		103		267
Depreciation/amortization related to real estate investments		62		181
Utilities		35		73
Maintenance		68		137
Real estate taxes		48		112
Insurance		7		18
Property management expenses		37		83
Administrative expenses		2		2
Other operating expenses		3		9
Loss on impairment of real estate		190		520
TOTAL OPERATING EXPENSE		555		1,402
Operating loss		(169)		(453)
Other non-operating income		(1)		0
Loss before minority interest and gain on sale of other investments		(170)		(453)
Minority interest portion of operating partnership income		(402)		(523)
Gain on sale of discontinued operations		1,853		2,673
Discontinued operations, net of minority interest	$	1,281	$	1,697

NOTE 8 • ACQUISITIONS

Acquisitions During the Six Months Ended October 31, 2007:

During the second quarter of fiscal year 2008, IRET completed no property acquisitions.

During the first quarter of fiscal year 2008, the Company acquired four office/warehouse properties and a medical office building for a total purchase price of approximately $27.2 million, excluding closing costs.

The following table details the Company's acquisitions during the six months ended October 31, 2007:

		(in thousands)
Acquisitions		**Acquisition Cost**
Commercial Property	*Office*	

20,528 sq. ft. Plymouth 5095 Nathan Lane Office Building	Plymouth, MN	$	2,000
Commercial Property	*Medical (including senior housing/assisted living)*		
18,502 sq. ft. Barry Pointe Medical Building	Kansas City, MO		3,200
Commercial Property	*Industrial*		
50,400 sq. ft. Cedar Lake Business Center	St. Louis Park, MN		4,040
528,353 sq. ft. Urbandale Warehouse Building	Urbandale, IA		14,000
69,600 sq. ft. Woodbury 1865 Woodlane	Woodbury, MN		4,000
Total Property Acquisitions		$	27,240

Table of Contents

NOTE 9 • SUBSEQUENT EVENTS

Common and Preferred Share Distributions. On November 19, 2007, the Company's Board of Trustees declared a regular quarterly distribution of 16.75 cents per share and unit on the Company's common shares of beneficial interest and limited partnership units of IRET Properties, payable January 14, 2008, to common shareholders and unitholders of record on January 2, 2008. Also on November 19, 2007, the Company's Board of Trustees declared a distribution of 51.56 cents per share on the Company's preferred shares of beneficial interest, payable December 31, 2007, to preferred shareholders of record on December 14, 2007.

Completed and Pending Acquisitions and Dispositions. Subsequent to the end of the second quarter of fiscal year 2008, the Company closed on the acquisition of a one-story office/warehouse property with approximately 78,000 square feet of rentable space, located in Brooklyn Park, Minnesota. The Company paid $6.5 million for this property, excluding closing costs, of which purchase price approximately $1.7 million was paid in UPREIT units of the Company's Operating Partnership.

Also subsequent to October 31, 2007, the Company signed a purchase agreement to acquire a two-story office building consisting of approximately 65,000 rentable square feet, located in Fenton, Missouri, for a purchase price of $7 million. This office building is currently owned by entities controlled by W. David Scott, a trustee of the Company. In accordance with the requirements of the Company's Declaration of Trust, the transaction was approved by a majority of the trustees and by a majority of the independent trustees not otherwise interested in the transaction, and the Company is obtaining an appraisal of the property to be carried out by an independent third-party appraiser. Under the Company's Declaration of Trust, the Company may not purchase this property at a price that exceeds the appraised value. This pending transaction is subject to various closing conditions and contingencies, and no assurances can be given that this transaction will be completed.

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, 2007, which are included in the Company's Annual Report on Form 10-K, filed with the Securities and Exchange Commission.

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 real estate investment trust engaged in owning and operating income-producing real properties. Our investments include multi-family residential properties and office, industrial, medical and retail 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, 2007, our real estate portfolio consisted of 69 multi-family residential properties containing 9,397 apartment units and having a total carrying amount (net of accumulated depreciation and intangibles) of $400.5 million, and 152 commercial properties containing approximately 10.6 million square feet of leasable space and having a total carrying amount (net of accumulated depreciation and intangibles) of $928.9 million. Our commercial properties consist of:

- 64 office properties containing approximately 4.8 million square feet of leasable space and having a total carrying amount (net of accumulated depreciation and intangibles) of $489.0 million;

- 35 medical properties (including senior housing) containing approximately 1.7 million square feet of leasable space and having a total carrying amount (net of accumulated depreciation and intangibles) of $251.5 million;

- 16 industrial properties containing approximately 2.7 million square feet of leasable space and having a total carrying amount (net of accumulated deprecation and intangibles) of $87.4 million; and

- 37 retail properties containing approximately 1.4 million square feet of leasable space and having a total carrying amount (net of accumulated depreciation and intangibles) of $101.0 million.

Table of Contents

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 intend to continue to achieve our business objective by investing in multi-family residential properties and in office, industrial, retail and medical commercial properties that are leased to single or multiple tenants, usually for five years or longer, and are located throughout the upper Midwest. We operate mainly within the states of North Dakota and Minnesota, although we also have real estate investments in South Dakota, Montana, Nebraska, Colorado, Idaho, Iowa, Kansas, Michigan, Missouri, Texas and Wisconsin.

We compete with other owners and developers of multi-family and commercial properties to attract tenants to our properties, and we compete with other real estate investors to acquire properties. Principal areas of competition for tenants are in respect of rents charged and the attractiveness of location and quality of our properties. Competition for investment properties affects our ability to acquire properties we want to add to our portfolio, and the price we pay for acquisitions.

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 Annual Report on Form 10-K for the fiscal year ended April 30, 2007, in Management's Discussion and Analysis of Financial Condition and Results of Operations. There have been no significant changes to those policies during the second quarter of fiscal year 2008.

RECENT ACCOUNTING PRONOUNCEMENTS

For disclosure regarding recent accounting pronouncements and the anticipated impact they will have on our operations, please refer to Note 2 to our condensed consolidated financial statements.

RESULTS OF OPERATIONS FOR THE THREE MONTHS AND SIX MONTHS ENDED OCTOBER 31, 2007 AND 2006

REVENUES

Total IRET revenues for the second quarter of fiscal year 2008 were $54.3 million, compared to $48.6 million recorded in the second quarter of the prior fiscal year. This is an increase of $5.7 million or 11.7%. Revenues for the six months ended October 31, 2007 were $107.9 million compared to $93.0 million in the six months ended October 31, 2006. This is an increase of $14.9 million or 16.0%. This increase in revenue resulted primarily from the additional investments in real estate made by IRET during fiscal years 2007 and 2008, as well as other factors shown by the following analysis:

	(in thousands)	
	Increase in Total Revenue Three Months ended October 31, 2007	**Increase in Total Revenue Six Months ended October 31, 2007**
	$ 4,412	$ 11,882

Rent in Fiscal 2008 from 21 properties acquired in Fiscal 2007 in excess of that received in Fiscal 2007 from the same 21 properties				
Rent from 5 properties acquired in Fiscal 2008		766		1,128
Increase in rental income on stabilized properties primarily due to a decrease in tenant concessions granted		435		1,771
Increase in lease termination fees		23		155
Net increase in total revenue	$	5,636	$	14,936

NET OPERATING INCOME

The following tables report segment financial information. We measure the performance of our segments based on net operating income ("NOI"), which we define as total revenues less property operating expenses and real estate taxes. 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 revenues, operating expenses and NOI by reportable operating segment for the three months and six months ended October 31, 2007 and 2006. For a reconciliation of net operating income of reportable segments to income before

Table of Contents

minority interest and discontinued operations and (loss) gain on sale of other investments 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 stabilized property and non-stabilized property basis. Stabilized properties are properties owned and in operation for the entirety of the periods being compared (including properties that were redeveloped or expanded during the periods being compared, with properties purchased or sold during the periods being compared excluded from the stabilized property category). 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 stabilized 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.

(in thousands)

Three Months Ended October 31, 2007	Multi-Family Residential	Commercial-Office	Commercial-Medical	Commercial-Industrial	Commercial-Retail	Total
Real estate revenue	$ 18,329	$ 20,613	$ 8,920	$ 3,027	$ 3,385	$ 54,274
Real estate expenses						
Utilities	1,670	2,067	448	29	92	4,306
Maintenance	2,567	2,488	606	121	244	6,026
Real estate taxes	1,881	3,076	655	346	513	6,471
Insurance	290	227	14	34	42	607
Property management	2,298	865	320	96	96	3,675
Total expenses	$ 8,706	$ 8,723	$ 2,043	$ 626	$ 987	$ 21,085
Net operating income	$ 9,623	$ 11,890	$ 6,877	$ 2,401	$ 2,398	$ 33,189
Stabilized net operating income	$ 8,913	$ 8,554	$ 6,649	$ 1,633	$ 2,303	$ 28,052
Non-stabilized net operating income	710	3,336	228	768	95	5,137
Total net operating income	$ 9,623	$ 11,890	$ 6,877	$ 2,401	$ 2,398	$ 33,189

(in thousands)

Three Months Ended October 31, 2006	Multi-Family Residential	Commercial-Office	Commercial-Medical	Commercial-Industrial	Commercial-Retail	Total
Real estate revenue	$ 16,883	$ 17,795	$ 8,638	$ 1,844	$ 3,478	$ 48,638
Real estate expenses						
Utilities	1,397	1,719	519	16	103	3,754
Maintenance	2,351	2,222	645	36	209	5,463
Real estate taxes	1,767	2,582	540	95	514	5,498
Insurance	270	184	67	17	41	579
Property management	1,984	842	407	31	205	3,469
Total expenses	$ 7,769	$ 7,549	$ 2,178	$ 195	$ 1,072	$ 18,763
Net operating income	$ 9,114	$ 10,246	$ 6,460	$ 1,649	$ 2,406	$ 29,875

Stabilized net operating income	$	8,897	$	8,542	$	6,382	$	1,649	$	2,307	$	27,777
Non-stabilized net operating income		217		1,704		78		0		99		2,098
Total net operating income	$	9,114	$	10,246	$	6,460	$	1,649	$	2,406	$	29,875

17

Table of Contents

	(in thousands)					
Six Months Ended October 31, 2007	**Multi-Family Residential**	**Commercial-Office**	**Commercial-Medical**	**Commercial-Industrial**	**Commercial-Retail**	**Total**
Real estate revenue	$ 36,110	$ 41,215	$ 17,885	$ 5,689	$ 7,017	$ 107,916
Real estate expenses						
Utilities	3,163	3,889	987	50	173	8,262
Maintenance	5,020	5,084	1,186	210	537	12,037
Real estate taxes	3,790	6,145	1,309	639	1,027	12,910
Insurance	579	445				