

INVESTORS REAL ESTATE TRUST
Form 10-Q
September 10, 2018

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 the quarterly period ended July 31, 2018

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number 001-35624

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.)

1400 31st 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

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

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

Non-accelerated filer Smaller Reporting Company Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Yes

No

The number of common shares of beneficial interest outstanding as of August 31, 2018, was 119,507,149.

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PART I

ITEM 1. FINANCIAL STATEMENTS - FIRST QUARTER - FISCAL 2019

INVESTORS REAL ESTATE TRUST AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS (unaudited)

	(in thousands, except per share data)	
	July 31, 2018	April 30, 2018
ASSETS		
Real estate investments		
Property owned	\$1,636,233	\$1,669,764
Less accumulated depreciation	(326,772)	(311,324)
	1,309,461	1,358,440
Unimproved land	7,926	11,476
Mortgage loans receivable	10,530	10,329
Total real estate investments	1,327,917	1,380,245
Cash and cash equivalents	16,261	11,891
Restricted cash	4,103	4,225
Other assets	27,885	30,297
TOTAL ASSETS	\$1,376,166	\$1,426,658
LIABILITIES, REDEEMABLE NONCONTROLLING INTERESTS, AND EQUITY		
LIABILITIES		
Accounts payable and accrued expenses	28,112	29,018
Revolving line of credit	130,000	124,000
Term loan, net of unamortized loan costs of \$460 and \$486, respectively	69,540	69,514
Mortgages payable, net of unamortized loan costs of \$1,998 and \$2,221, respectively	464,557	509,919
TOTAL LIABILITIES	\$692,209	\$732,451
COMMITMENTS AND CONTINGENCIES (NOTE 6)		
REDEEMABLE NONCONTROLLING INTERESTS – CONSOLIDATED REAL ESTATE ENTITIES	6,230	6,644
EQUITY		
Series C Preferred Shares of Beneficial Interest (Cumulative redeemable preferred shares, no par value, \$25 per share liquidation preference, 4,118 shares issued and outstanding at July 31, 2018 and April 30, 2018, aggregate liquidation preference of \$102,971)	99,456	99,456
Common Shares of Beneficial Interest (Unlimited authorization, no par value, 119,507 shares issued and outstanding at July 31, 2018 and 119,526 shares issued and outstanding at April 30, 2018)	899,708	900,097
Accumulated distributions in excess of net income	(402,190)	(395,669)
Accumulated other comprehensive income	\$1,987	\$1,779
Total shareholders' equity	598,961	605,663
Noncontrolling interests – Operating Partnership (13,895 units at July 31, 2018 and 14,099 units at April 30, 2018)	71,390	73,012
Noncontrolling interests – consolidated real estate entities	7,376	8,888
Total equity	\$677,727	\$687,563
TOTAL LIABILITIES, REDEEMABLE NONCONTROLLING INTERESTS, AND EQUITY	\$1,376,166	\$1,426,658

See accompanying Notes to Condensed Consolidated Financial Statements.

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CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited)

	(in thousands, except per share data)	
	Three Months Ended	
	July 31,	
	2018	2017
REVENUE	\$ 45,946	\$ 40,978
EXPENSES		
Property operating expenses, excluding real estate taxes	14,459	12,874
Real estate taxes	5,070	4,653
Property management expense	1,367	1,356
Casualty loss	225	485
Depreciation and amortization	18,612	25,338
Impairment of real estate investments	—	256
General and administrative expenses	3,870	4,002
TOTAL EXPENSES	\$ 43,603	\$ 48,964
Operating income (loss)	2,343	(7,986)
Interest expense	(8,385)	(8,131)
Loss on extinguishment of debt	(552)	(199)
Interest income	481	21
Other income	35	207
Loss before gain on sale of real estate and other investments and income from discontinued operations	(6,078)	(16,088)
Gain on sale of real estate and other investments	9,224	124
Income (loss) from continuing operations	3,146	(15,964)
Income (loss) from discontinued operations	570	2,685
NET INCOME (LOSS)	\$ 3,716	\$ (13,279)
Net (income) loss attributable to noncontrolling interests – Operating Partnership	(135)	1,644
Net (income) loss attributable to noncontrolling interests – consolidated real estate entities	(665)	371
Net income (loss) attributable to controlling interests	2,916	(11,264)
Dividends to preferred shareholders	(1,705)	(2,286)
NET INCOME (LOSS) AVAILABLE TO COMMON SHAREHOLDERS	\$ 1,211	\$ (13,550)
Earnings (loss) per common share from continuing operations – basic and diluted	\$ 0.01	\$ (0.13)
Earnings per common share from discontinued operations – basic and diluted	—	\$ 0.02
NET EARNINGS (LOSS) PER COMMON SHARE – BASIC & DILUTED	\$ 0.01	\$ (0.11)
DIVIDENDS PER COMMON SHARE	\$ 0.07	\$ 0.07

See accompanying Notes to Condensed Consolidated Financial Statements.

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CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (unaudited)

	(in thousands)	
	Three months ended July 31,	
	2018	2017
Net income (loss)	\$3,716	\$(13,279)
Other comprehensive income:		
Unrealized gain from derivative instrument	208	—
Loss on derivative instrument reclassified into earnings	29	—
Total comprehensive income (loss)	\$3,953	\$(13,279)
Net comprehensive (income) loss attributable to noncontrolling interests – Operating Partnership	(157)	1,644
Net (income) loss attributable to noncontrolling interests – consolidated real estate entities	(665)	371
Comprehensive income (loss) attributable to controlling interests	\$3,131	\$(11,264)

See accompanying Notes to Condensed Consolidated Financial Statements.

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INVESTORS REAL ESTATE TRUST AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF EQUITY (unaudited)
 for the three months ended July 31, 2018 and 2017

	PREFERRED SHARES	NUMBER OF COMMON SHARES	COMMON SHARES	ACCUMULATED DISTRIBUTIONS IN EXCESS OF NET INCOME	ACCUMULATED OTHER COMPREHENSIVE INCOME	NONREDEEMABLE NONCONTROLLING INTERESTS	TOTAL EQUITY
Balance April 30, 2017	\$ 111,357	121,199	\$ 908,905	\$ (466,541)	—	\$ 82,437	\$ 636,158
Net income (loss) attributable to controlling interests and nonredeemable noncontrolling interests				(11,264)		(1,844)	(13,108)
Distributions – common shares and units				(8,444)		(1,065)	(9,509)
Distributions – Series B preferred shares				(2,286)			(2,286)
Shares issued and share-based compensation		75	469				469
Redemption of units for cash						(5,735)	(5,735)
Shares repurchased		(682)	(3,936)				(3,936)
Distributions to nonredeemable noncontrolling interests – consolidated real estate entities						(20)	(20)
Other		(5)	(29)				(29)
Balance July 31, 2017	\$ 111,357	120,587	\$ 905,409	\$ (488,535)	—	\$ 73,773	\$ 602,004
Balance April 30, 2018	\$ 99,456	119,526	\$ 900,097	\$ (395,669)	\$ 1,779	\$ 81,900	\$ 687,563
Cumulative adjustment upon adoption of ASC 606 and ASC 610-20				627			627
Balance on May 1, 2018	\$ 99,456	119,526	\$ 900,097	\$ (395,042)	\$ 1,779	\$ 81,900	\$ 688,190
Net income (loss) attributable to controlling interests and nonredeemable noncontrolling interests				2,916		964	3,880
Other comprehensive income - derivative instrument					208		208
Distributions – common shares and units				(8,359)		(987)	(9,346)
Distributions – Series C preferred shares				(1,705)			(1,705)

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Shares issued and share-based compensation	24	320		320
Redemption of units for common shares	114	291	(291)) —
Redemption of units for cash			(479)) (479)
Shares repurchased	(119) (615)	(615)
Partial acquisition of noncontrolling interests - consolidated real estate entities		(178)	150 (28)
Distributions to nonredeemable noncontrolling interests – consolidated real estate entities			(2,099) (2,099)
Conversion to equity of notes receivable from nonredeemable noncontrolling interests - consolidated real estate entities			(392) (392)
Other	(38			