

INVESTORS REAL ESTATE TRUST  
 Form 424B2  
 January 28, 2002

Filed pursuant to Rule 424B(2)  
 Registration No. 333-76034

Prospectus dated January 25, 2002

**600,000 COMMON SHARES**  
**INVESTORS REAL ESTATE TRUST (IRET)**  
**Common Shares of Beneficial Interest**  
**Minimum Purchase of 100 Shares**

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

We intend to use the proceeds of this offering to increase our capital for real estate additions or acquisitions.

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

	<u>Per Share</u>	<u>Total if all shares sold</u>	<u>Percentage</u>
Public Offering Price	\$8.75	\$ 5,250,000	100%
Less Selling Commission	<u>\$ .70</u>	<u>\$ 420,000</u>	<u>8%</u>
Proceeds to us before expenses	\$8.05	\$ 4,830,000	92%

After the payment of all fees and expenses associated with this offering and assuming all the shares are sold, IRET will receive approximately \$4,787,000 or 91.18% of the sale proceeds.

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

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

This is a best efforts offering. Even if we do not sell enough shares to acquire additional real estate, we will not return any portion of your investment.

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

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

The shares will be offered on a best efforts basis by broker/dealers who have signed a sales agreement and are registered with the National Association of Securities Dealers (NASD). The broker/dealers are not required to sell a specific number or dollar amount of shares. The broker/dealers will be paid an 8% commission on each share sold. Any money received from investors will go immediately to IRET and will not be placed in escrow or trust. This offering will end on the earlier of one year from the date of this prospectus or when all shares have been sold. Broker/dealers who have agreed to sell the shares are listed on page 19.

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

January 25, 2002

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### Prospectus Summary

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

### IRET

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

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

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

### Investment Risks

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

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

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- \* As of October 31, 2001, total liabilities were 220% in relation to our net assets. The ratio of total liabilities to total assets was 69.58%, and the ratio of real estate assets to total real estate debt was 62.9%. We intend to borrow 70% of the cost of any real estate constructed or purchased which may result in us becoming too highly leveraged and losing the real estate through foreclosure.
- \* This is a best efforts offering. Even if we do not sell enough shares to acquire additional real estate, we will not return any portion of your investment.
- \* The low trading volume of IRET shares on the Nasdaq small cap market may prevent the timely resale of any shares you purchase.
- \* The management of IRET operates under a number of conflicts of interest that may prevent the company from receiving the benefit of management's undivided effort and time
- \* The book value of the shares available under this offering is substantially less than the purchase price of \$8.75 per share.

## **Business**

We have a fundamental strategy of focusing on the upper Midwest with a primary emphasis on the states of Minnesota, North Dakota, South Dakota, Montana, and Nebraska. For the six months ended October 31, 2001, IRET's investments in these states account for 71% of IRET's total gross revenue of \$44,445,900. We also seek diversification by property type with approximately 60% being multi-family apartment communities and the remaining 40% being commercial buildings. We attempt to concentrate our multi-family holdings in cities with populations from 35,000 to 500,000 in the 25-mile radius. As it applies to commercial real estate, we seek to acquire properties that are fully leased to quality tenants and located in medium to large population centers containing from 50,000 to 1,000,000 people or more within a 25-mile radius. Under certain circumstances, we seek to diversify our real estate portfolio by investing in assets located through out the United States and in smaller or larger metropolitan areas.

Based upon our ability to raise equity capital and exchange limited partnership units in IRET Properties, we anticipate acquiring \$50,000,000 to \$150,000,000 of real estate assets on an annual basis going forward.

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IRET contracts with a locally based third party management company to handle all onsite management duties necessary for the proper operation of a particular property. All management contracts may be terminated on 30 days written notice and provide for compensation ranging from 2.75% to no more than 5% of gross rent collections. The use of local management companies allows us to enjoy the benefits of local knowledge of the applicable real estate market while avoiding the cost and difficulty associated with maintaining management personnel in every city in which we operate. Based upon our ability to raise equity capital, we plan to acquire \$100,000,000 of real estate assets on an annual basis going forward applying the investment focus outlined in the previous paragraph of approximately two-thirds apartments and one-third commercial primarily located in the upper Midwestern states of Minnesota, North Dakota, South Dakota, Montana, and Nebraska.

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

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

### IRET's Real Estate Portfolio

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

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

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

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

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

### **This Offering and Plan of Distribution**

Shares offered by IRET	600,000 shares
Shares outstanding after the offering	27,601,404
Use of proceeds	To increase capital for other real estate additions or acquisitions.
NASDAQ Small Cap symbol	IRETS

The number of shares outstanding after the offering assumes that all 600,000 shares offered will be sold. Since the offering is being handled on a best efforts basis there is no guarantee that any shares will be sold.

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

All shares will be sold on a first come first serve basis. Each participating broker/dealer may sell all or any part of the offering assuming that sales by all participating broker/dealers does not exceed the 600,000 shares registered for sale.

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

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

### **Use of Proceeds**

We estimate that the net proceeds from the sale of the shares we are offering will be approximately \$4,787,000. "Net proceeds" is what we expect to receive after paying expenses of the offering, which we estimate will be approximately \$463,000 or about 8.82% of the total offering.

We plan to use the proceeds to increase our capital for other real estate additions or acquisitions. The money raised by this offering will be used to purchase real estate which generally meets the following standards:

- \* Located in the states of Minnesota, Nebraska, South Dakota, Colorado, Montana or North Dakota.
- \* Either a multi-family apartment complex with historical occupancy for the previous 24 months of 85% or better or a commercial office, warehouse or retail building currently leased to tenants occupying at least 90% or more of the space.
- \* The property is not a hotel/motel or undeveloped raw land.
- \* The appraised value of the property is equal to or greater than the purchase price.

As of the date of this prospectus, we have not identified any specific properties which satisfy the criteria listed above. Even in the event we do not identify a particular property or do not raise enough money under this offering to buy any additional real estate, we will not return your money.

The Board of Trustees will have broad discretion on how to invest the proceeds and may change the investment criteria at any time without notice to or approval of the shareholders.

Pending any real estate purchases, the net proceeds will be invested in United States Treasury Bonds with terms of six (6) months or less.

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

### Summary Operating Data - Three Months and Six Months Ended October 31, 2001

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

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### Statement of Operations

For Three Months and Six Months Ended October 31, 2001 and 2000 (unaudited)

	3 Months Ended <u>10/31/01</u>	3 Months Ended <u>10/31/00</u>	6 Months Ended <u>10/31/01</u>	6 Months Ended <u>10/31/00</u>
REVENUE				
Real Estate Rentals	\$ 22,877,520	\$ 18,216,163	\$ 44,445,900	\$ 35,508,138
Interest, Discounts and Fees	\$ <u>297,521</u>	\$ <u>188,097</u>	\$ <u>509,235</u>	\$ <u>327,766</u>

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Total Revenue	\$ <u>23,175,041</u>	\$ <u>18,404,260</u>	\$ <u>44,955,135</u>	\$ <u>35,835,904</u>
<b>OPERATING EXPENSE</b>				
Interest	\$ 7,597,039	\$ 6,087,438	\$ 14,795,417	\$ 11,778,403
Depreciation	3,718,328	3,042,137	7,375,090	5,698,346
Utilities and Maintenance	3,190,626	2,775,648	6,162,434	5,388,844
Taxes	2,234,148	1,712,556	4,349,779	3,400,798
Insurance	313,713	174,471	628,398	341,752
Property Management Expenses	1,730,144	1,369,059	3,360,223	2,779,561
Administrative Expense & Trustee Services	394,240	295,827	780,546	759,789
Operating Expenses	118,672	124,078	245,295	204,555
Amortization	\$ <u>134,716</u>	\$ <u>115,235</u>	\$ <u>263,672</u>	\$ <u>210,914</u>
Total Expenses	\$ <u>19,431,626</u>	\$ <u>15,696,449</u>	\$ <u>37,960,854</u>	\$ <u>30,562,962</u>
INCOME BEFORE GAIN/LOSS ON PROPERTIES AND MINORITY INTEREST	3,743,415	2,707,811	6,994,281	5,272,942
GAIN ON SALE OF INVESTMENT	16,398	0	324,332	0
<b>MINORITY INTEREST OTHER PARTNERSHIP</b>	-86,554	0	-143,309	0
MINORITY INTEREST PORTION OF OPERATING PARTNERSHIP INCOME	\$ <u>-727,344</u>	\$ <u>-538,618</u>	\$ <u>-1,453,661</u>	\$ <u>-964,285</u>
NET INCOME	\$ <u>2,945,915</u>	\$ <u>2,169,193</u>	\$ <u>5,721,643</u>	\$ <u>4,308,657</u>
<b>PER SHARE</b>				
Net Income Per Share	\$ 0.1200	\$ 0.0900	\$ 0.2400	\$ 0.1900
Dividends Paid Per Share	\$ 0.1475	\$ 0.1350	\$ 0.2925	\$ 0.2675
Average Number of Shares Outstanding	<u>24,362,151</u>	<u>22,972,664</u>	<u>24,252,467</u>	<u>22,790,637</u>

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**Summary Operating Data Last Three Fiscal Years**

We have provided in the table below our summary financial and operating data. The financial information for each of the years in the three-year period ended April 30, has been derived from our audited financial statements. You should read the following financial information in conjunction with our consolidated financial statements and the related notes that we have included in the accompanying prospectus on pages F-1 through F-57.

**Selected Financial Data for IRET for the Three Years Ended April 30**

	<u>2001</u>	<u>2000</u>	<u>1999</u>
<b>Consolidated Income Statement Data</b>			
Revenue	\$ 75,767,150	\$ 55,445,193	\$ 39,927,262
Income before gain/loss on properties and minority interest	\$ 10,187,812	\$ 8,548,558	\$ 6,401,676
Gain on repossession/ Sale of properties	\$ 601,605	\$ 1,754,496	\$ 1,947,184
Minority interest of portion of operating partnership income	\$ <u>-2,095,177</u>	\$ <u>-1,495,209</u>	\$ <u>-744,725</u>

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Net income	\$ <u>8,694,240</u>	\$ <u>8,807,845</u>	\$ <u>7,604,135</u>
Consolidated Balance Sheet Data			
Total real estate investments	\$ 548,580,418	\$ 418,216,516	\$ 280,311,442
Total assets	\$ 570,322,124	\$ 432,978,299	\$ 291,493,311
Shareholders' equity	\$ 118,945,160	\$ 109,920,591	\$ 85,783,294
Per Share			
Net Income	\$ .38	\$ .42	\$ .44
Dividends	\$ .55	\$ .51	\$ .47
Calendar Year	<u>2001</u>	<u>2000</u>	<u>1999</u>
Tax status of dividend			
Capital gain	.7%	30.3%	6.3%
Ordinary income	86.8%	69.7%	76.0%
Return of capital	12.5%	0.0%	17.7%

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## Recent Developments

### Revenues

Total IRET revenues for the second quarter of Fiscal 2002 ended October 31, 2001, were \$23,175,041 compared to \$18,404,260 received in the second quarter of the prior fiscal year ended October 31, 2000. This is an increase of \$4,770,781 or 25.9%.

Total revenues for the first six months of Fiscal 2002 ended October 31, 2001, were \$44,955,135 compared to \$35,835,904, an increase of 25.4% for the first six months of the prior fiscal year ended October 31, 2000. These increases are primarily attributable to the addition of new properties to IRET's investment portfolio.

### Funds From Operations

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

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

FFO should not be considered as an alternative to net income as determined in accordance with accounting principles generally accepted in the United States of America as a measure of IRET's liquidity, nor is it necessarily indicative of sufficient cash flow to fund all of IRET's needs or its ability to service indebtedness or make distributions.

Funds from Operations for IRET for the three months ended October 31, 2001, increased to \$7,436,176 compared

to \$5,749,948 for the three months ended October 31, 2000, an increase of 29.4%.

Funds from Operations for IRET for the six months ended October 31, 2001, increased to \$14,335,235 compared to \$10,971,288 for the six months ended Fiscal 2000, an increase of 30.7%.

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### **Capital Gain Income**

IRET realized capital gain income of \$16,398 during the second quarter of Fiscal 2002 ended October 31, 2001. This resulted from the sale of the Lester Chiropractic building in Bismarck, North Dakota, at a gain of \$85,279, and the sale of marketable securities available for sale at a loss of \$68,881.

Total capital gain income for the first six months of Fiscal 2002 ended October 31, 2001, was \$324,332. In addition to the two items listed in the previous paragraph, capital gain income for the first six months for Fiscal 2002 included a gain of \$296,409 from the sale of the Sunchase Apartments, a 36-unit apartment complex in Fargo, North Dakota, and a gain of \$11,525 from the sale of marketable securities held to maturity. Both events occurred in the first quarter of Fiscal 2002. No capital gain income was realized in the first six months of the prior fiscal year ended October 31, 2000.

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

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

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

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

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

On July 6, 2001, we acquired the Cottage Grove Strip Center which is a 15,217 square foot retail strip center located in Cottage Grove, Minnesota for an agreed value of \$1,100,000 which was paid partly in cash of \$823,594.00 and the balance of \$276,594 with 31,603.53 limited partnership units with a value of \$8.752 per unit.

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

### **Acquisition of Bloomington Business Plaza - Bloomington, Minnesota**

On October 1, 2001, we acquired the Bloomington Business Plaza from a general partnership controlled by Steven B. Hoyt. The property was acquired pursuant to the terms of a contract dated January 8, 2001, as amended by an agreement dated September 27, 2001. At the time of acquisition, Mr. Hoyt was a member of the Board of Trustees for IRET. At the time the original acquisition contract was signed, Mr. Hoyt was not a member of the Board of Trustees for IRET.

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The property was purchased for an agreed value of \$7,201,680 of which \$215,000 was paid in cash and the balance of \$6,986,680 with 812,404.65 limited partnership units of IRET Properties with a value of \$8.60 per unit. In addition to the purchase price of \$7,201,680, IRET incurred acquisition costs of \$203,989 for commissions, loan costs and legal costs.

The acquisition was approved by a majority of the Board of Trustees and based on an independent appraisal of the property which determined the value to be \$6,975,000.

Bloomington Business Plaza is a multi-tenant office/warehouse building constructed in 1985. It consists of 121,063 square feet of leasable space and is currently 100% leased to 21 tenants with remaining lease terms ranging from five months to four years and 10 months. All rents paid by the current tenants are at market rates. No one tenant occupies more than 17.08% of the leasable space.

**Acquisition of Canyon Lake Apartments - Rapid City, South Dakota**

On September 27, 2001, we acquired the Canyon Lake Plaza Apartments which is a 109-unit multi-family apartment complex located in Rapid City, South Dakota, for an agreed value of \$4,270,607 which was paid for with 83,626.79 limited partnership units of IRET Properties with a value of \$8.60 per unit.

The Canyon Lake Plaza Apartments is a multi-building apartment complex consisting of four separate buildings. The complex was built in 1972. As of October 31, 2001, the property was 96.3% occupied.

**Acquisition of Applewood on the Green Apartments - Omaha, Nebraska**

On November 1, 2001, we acquired the Applewood on the Green Apartments located in Omaha, Nebraska, for an agreed value of \$10,364,745 which was paid partly in cash of \$2,643,611 and the balance by assumption of an existing debt secured by the property with an unpaid balance of \$7,721,134. The assumed debt bears interest at a fixed rate of 6.55% and is payable in monthly installments of \$51,334 amortized over a remaining term of seven years with a balloon payment of all remaining principal and interest due on October 8, 2008.

The Applewood Apartments is a multi-building apartment complex consisting of 13 individual buildings. The complex was built in 1971. As of October 31, 2001, the property was 70.5% occupied.

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**Price Range of Common Shares and Distributions**

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

	<u>High</u>	<u>Low</u>	<u>Distribution Per Share</u>
Fiscal 1999			

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

On December 24, 2001, the last reported sale price of our common shares on the Nasdaq Small Cap Market was \$9.35 per share.

### Legal Matters

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

### Experts

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

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## Available Information Concerning IRET

### Securities and Exchange Commission

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

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

IRET also maintains a website at [www.iret.com](http://www.iret.com) which contains information about the company.



### **Reports to Security Holders**

IRET provides shareholders with an annual report on or about the second week of August of each year containing financial statements audited by IRET's independent accountants for the prior fiscal year ended. For the first three quarters of each year, IRET provides shareholders with a quarterly report containing unaudited summary financial statements and such other information as IRET deems appropriate or as required by law. The quarterly reports are distributed on or before April 15, October 15, and January 15, of each year.

### **Additional Information**

Copies of any document discussed in this prospectus is available free of charge upon request to Timothy P. Mihalick, 12 South Main Street, Suite 100, Minot, North Dakota 58701, (701-837-4738).

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

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## **PROSPECTUS**

### **The Company**

Investors Real Estate Trust ("IRET") was organized under the laws of the State of North Dakota on July 31, 1970. Since its formation, IRET has qualified and operates as a "real estate investment trust" under Sections 856-858 of the Internal Revenue Code. IRET is a self-administered and self-managed company. As of October 31, 2001, IRET owned and operated a portfolio of 59 apartment communities containing 8,248 apartment units and 62 commercial buildings containing 2,781,115 square feet of leasable space.

IRET's investment strategy is to maintain its real estate investment portfolio at approximately 60% invested in multi-family apartment communities located primarily in the upper Midwest and the remaining 40% of real estate owned in commercial property warehouses, retirement homes, manufacturing plants, offices, and retail properties leased to single or multiple tenants, usually for seven years or longer, located throughout the upper Midwest. IRET operates mainly within the states of North Dakota and Minnesota, although it has real estate investments in the states of Colorado, Georgia, Idaho, Iowa, Kansas, Michigan, Montana, Nebraska, South Dakota, Washington, and Texas.

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

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

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

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

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

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

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

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

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

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

	<u>Commercial</u>						<u>Apartments</u>						
	<u>State</u>		<u>2001</u>		<u>2000</u>		<u>2001</u>		<u>2000</u>		<u>1999</u>		
CO	\$	0	0%	\$ 1,409,445	1%	\$ 0	0%	\$ 39,050,180	11%	\$ 38,837,432	12%	\$ 38,599,278	17%
GA	\$	3,971,878	2%	\$ 3,971,878	3%	\$ 3,971,878	6%	\$ 0	0%	\$ 0	0%	\$ 0	0%

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ID	\$ 4,788,294	2%	\$ 4,788,094	4%	\$ 5,792,182	9%	\$ 3,853,638	1%	\$ 3,833,486	1%	\$ 3,822,199	2%
IA	\$ 0	0%	\$ 0	0%	\$ 0	0%	\$ 4,281,967	1%	\$ 0	0%	\$ 0	0%
KS	\$ 0	0%	\$ 0	0%	\$ 0	0%	\$ 26,818,295	7%	\$ 26,541,920	8%	\$ 0	0%
MI	\$ 2,121,474	1%	\$ 2,113,574	2%	\$ 2,113,574	3%	\$ 0	0%	\$ 0	0%	\$ 0	0%
MN	\$143,191,654	62%	\$44,384,465	37%	\$ 7,873,122	12%	\$55,485,023	15%	\$ 45,712,269	14%	\$38,645,843	17%
MT	\$ 4,832,860	2%	\$ 4,130,684	3%	\$ 3,627,565	5%	\$36,883,028	10%	\$ 24,982,540	8%	\$18,503,389	8%
NE	\$ 14,640,541	6%	\$13,112,879	11%	\$11,983,078	18%	\$9,956,873	3%	\$ 9,572,130	3%	\$ 0	0%
ND	\$ 48,492,536	21%	\$45,829,016	38%	\$25,212,104	37%	\$112,882,092	31%	\$107,836,564	33%	\$94,845,697	41%
SD	\$ 8,019,609	3%	\$ 974,739	1%	\$ 5,403,765	8%	\$16,769,796	5%	\$ 16,559,607	5%	\$16,427,555	7%
TX	\$ 0	0%	\$ 0	0%	\$ 0	0%	\$37,617,106	10%	\$ 37,473,258	11%	\$ 0	0%
WA	\$ 0	0%	\$ 0	0%	\$ 0	0%	\$17,979,624	5%	\$ 17,855,910	5%	\$17,731,015	8%
Other	\$ _____	0%	\$ _____	0%	\$ 1,273,596	2%	\$ _____	0%	\$ _____	0%	\$ _____	0%
Total	\$230,058,846	100%	\$120,714,774	100%	\$67,250,864	100%	\$361,577,622	100%	\$329,205,117	100%	\$228,574,976	100%

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

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

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

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

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<u>State</u>	2001		2000		1999	
	<u>Units</u>	<u>%</u>	<u>Units</u>	<u>%</u>	<u>Units</u>	<u>%</u>
CO	597	8%	597	8%	597	11%
GA	0	0%	0	0%	0	0%
IA	132	2%	0	0%	0	0%
ID	60	1%	60	1%	60	1%
KS	520	7%	520	7%	0	0%
MI	0	0%	0	0%	0	0%
MN	1,236	16%	1,163	16%	1,079	20%
MT	749	10%	475	6%	330	6%
NE	264	3%	264	4%	0	0%
ND	3,085	39%	3,014	41%	2,740	50%
SD	418	5%	418	6%	418	8%
TX	504	6%	504	7%	0	0%
<u>WA</u>	<u>304</u>	<u>4%</u>	<u>304</u>	<u>4%</u>	<u>304</u>	<u>5%</u>
Total	7,869	100%	7,319	100%	5,528	100%

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

<u>State</u>	<u>Commercial</u>			<u>Apartments</u>								
	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>						
CO	\$ 0	0%	\$ 0	0%	\$ 0	0%	\$ 6,004,925	11%	\$ 4,387,457	10%	\$ 5,442,020	16%
GA	\$ 436,907	2%	\$ 436,907	4%	\$ 436,907	8%	\$ 0	0%	\$ 0	0%	\$ 0	0%
IA	\$ 0	0%	\$ 0	0%	\$ 0	0%	\$ 189,193	0%	\$ 0	0%	\$ 0	0%
ID	\$ 26,780	0%	\$ 63,081	1%	\$ 101,702	2%	\$ 521,415	1%	\$ 117,075	0%	\$ 324,505	1%
KS	\$ 0	0%	\$ 0	0%	\$ 0	0%	\$ 3,763,671	7%	\$ 2,006,578	5%	\$ 0	0%
MI	\$ 202,912	1%	\$ 192,264	2%	\$ 192,264	3%	\$ 0	0%	\$ 0	0%	\$ 0	0%
MN	\$ 10,085,064	53%	\$ 3,169,633	27%	\$ 459,246	8%	\$ 9,057,050	16%	\$ 7,707,359	18%	\$ 7,106,374	22%
MT	\$ 591,581	3%	\$ 569,668	5%	\$ 578,412	10%	\$ 4,649,153	8%	\$ 2,667,540	6%	\$ 1,761,288	5%
NE	\$ 1,367,740	7%	\$ 1,201,903	10%	\$ 416,755	7%	\$ 1,717,494	3%	\$ 1,065,585	3%	\$ 0	0%
ND	\$ 5,675,734	30%	\$ 5,878,584	49%	\$ 2,976,140	52%	\$ 18,982,213	34%	\$ 17,994,851	42%	\$ 4,825,877	45%
SD	\$ 607,293	3%	\$ 365,987	3%	\$ 613,735	11%	\$ 3,020,178	5%	\$ 2,654,752	6%	\$ 2,795,807	8%
TX	\$ 0	0%	\$ 0	0%	\$ 0	0%	\$ 5,339,707	10%	\$ 1,306,004	3%	\$ 0	0%
WA	\$ 0	0%	\$ 0	0%	\$ 0	0%	\$ 2,561,714	5%	\$ 2,472,654	6%	\$ 754,255	2%

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Total \$18,994,011 100% \$11,878,027 100% \$ 5,775,161 100% \$55,806,713 100% \$ 42,379,855 100% \$33,010,126 100%

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

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

**Risk Factors**

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

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

The \$8.75 price is higher than the price paid by most of the current holders of IRET's shares. The \$8.75 price may be higher than the price at which IRET shares trade on the Nasdaq Smallcap Market. As a result, before buying shares pursuant to this offer, you should check to determine whether you might be able to buy the same number of shares on the Nasdaq for a lower price. See "Determination of Offering Price" on Page 18.

**Price Exceeds Book Value**

The book value of IRET shares of beneficial interest is substantially less than the \$8.75 purchase price. As of January 1, 2002, the book value of the 27,030,009 shares then outstanding was \$5.24 per share. Assuming all of the shares registered under this offering are sold, the estimated resulting book value will be \$5.30 per share. Thus, a purchasing shareholder paying \$8.75 per share will incur an immediate book value dilution of \$3.45 per share.

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

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

	<u>2001</u>	<u>2000</u>	<u>1999</u>
Real Estate Assets	\$ 591,636,468	\$ 449,919,890	\$ 295,825,839
Total real estate debt	\$ 368,956,930	\$ 265,056,767	\$ 175,071,069
Leverage percentage	62.4%	58.9%	59.2%

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

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

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

**Inability to Sell All the Shares May Prevent Acquisition of Additional Real estate**

The shares are being sold by the broker/dealers on a "best efforts" basis whereby the selling agent is only required to use its best efforts to locate purchasers for the shares, but is not obligated to ensure that a minimum number or that even any shares are sold. Therefore, no assurance is given as to the amount of proceeds that will be available for investment by IRET. In the event fewer than all the shares are sold during the offering period which is the shorter of one year from the date on the front of the prospectus or when all shares have been sold, IRET would not have sufficient money to acquire additional real estate. This could result in the fixed operating expenses of IRET, as a percentage of gross income, to be higher and consequently reduce the taxable income distributable to shareholders.

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

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

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

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

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

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

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

In contrast, the North Dakota economy is dependent on the areas of agriculture and mineral development. Both of these industries were depressed for most of the past decade. In the opinion of IRET there appears little prospect for improvement. While the North Dakota unemployment rate is below 4%, the state experienced almost zero population growth during the last decade and currently has a high concentration of people over 65. During the past decade, the population located in the rural areas declined significantly while that of the cities and towns over

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15,000 increased on average by 5%. This increase was due to the rural population moving to North Dakota's larger towns and cities of Fargo, Bismarck, Grand Forks, Minot, Jamestown, Dickinson, Williston, and Devils Lake. Of IRET's assets in North Dakota, over 90% are located in the cities and towns previously listed. It is predicted that the rural population in North Dakota will continue to move to North Dakota's larger towns and cities over the coming decade and that the overall population will decline over the next decade.

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

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

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

As of October 31, 2001, IRET has issued \$25,875,441 of securities to other investors, which are senior to the shares offered for sale under this document. As a result, in the event IRET ceases operations or liquidates and distributes all of its assets, the holders of the senior securities will be paid in full first before any money is distributed to shareholders. This preference will result in shareholders receiving less money. Currently, IRET is authorized to issue no more than \$5,000,000 in senior securities. However, this policy can be changed by the trustees at any time without advance notice to or a vote of the shareholders.

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

Over the next 12 months leases covering approximately 5.07% of the total commercial square footage owned by IRET will expire. As of October 31, 2001, approximately 3.12% of the total commercial square footage owned by IRET was vacant. Of that current vacancy, 80.28% is represented by the warehouse in Boise, Idaho, which has been vacant for the last 14 months. As a result, in the event IRET is unable to rent or sell those properties affected by an expiring lease or that are already vacant, then 8.19% of IRET's total commercial portfolio per square foot will be vacant. If not corrected, this vacancy will negatively impact IRET's earnings and result in lower distributions to shareholders and a possible decline in the value of IRET real estate portfolio.

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

The second building is the Carmike Cinema building in Grand Forks, North Dakota. The tenant is currently in Chapter 11 bankruptcy. All rent has been paid to date, and the tenant has affirmed the lease in the bankruptcy proceeding and may no longer reject the lease. However, Carmike may not successfully complete its Chapter 11 re-organization and could default on its



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obligations. IRET currently receives \$278,512 in rent annually for Carmike compared to fiscal year 2001 gross revenues of \$74,774,464. Annual rent from Carmike represents less than 1% of annual gross revenue. However, should Carmike reject the lease, IRET would incur a decline in net income.

**Mortgage Lending May Result in Losses**

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

Location	Real Estate Security					Interest	
		10/31/01	4/30/01	4/30/00	4/30/99	Rate	Priority
Higley Heights - Phoenix, AZ	Orange Grove Campus/Office	\$ 0	\$ 0	\$ 598,843	\$ 742,811	8.00%	First
Great Plains Software - Fargo, ND	Facility	\$ 0	\$ 0	\$ 0	\$ 9,185,758	9.50%	First
Hausmann Rentals - Moorhead, MN	Apartment Building	\$ 273,934	\$ 278,527	\$ 287,115	\$ 294,968	9.00%	First
1516 N. Street - Bismarck, ND	Apartment Building	\$ 0	\$ 0	\$ 0	\$ 159,965	10.25%	First
Scottsbluff Estates - Scottsbluff, NE	Apartment Building	\$ 106,514	\$ 106,926	\$ 108,752	\$ 110,437	8.00%	Second
Fairfield Apts - Hutchinson, MN	Apartment Building	\$ 42,692	\$ 43,313	\$ 45,930	\$ 46,500	8.75%	First
1921 7th Street NW - Minot, ND	Rental House	\$ 0	\$ 954	\$ 2,269	\$ 3,282	7.00%	First
Inwards Building - Detroit Lakes, MN	Apartment Building	\$ 0	\$ 0	\$ 0	\$ 117,493	9.00%	First
Edgewood Vista - Norfolk, MN	Alzheimer Facility	\$ 477,375	\$ 477,375	\$ 477,375	\$ 0	11.00%	First
Edgewood Vista - Virginia, MN	Alzheimer Facility	\$ 1,712,382	\$ 0	\$ 0	\$ 0	10.00%	First
Mankato Heights Plaza - Mankota, MN	Strip Mall	\$ 3,200,000	\$ 0	\$ 0	\$ 0	10.00%	First
Other Mortgages		\$ 130,000	\$ 130,000	\$ 130,000	\$ 60,000	8.00%	
<b>Total</b>		<b>\$ 5,942,897</b>	<b>\$ 1,037,095</b>	<b>\$ 1,650,284</b>	<b>\$ 10,721,213</b>		
Less:							
Unearned Discounts		\$ 0	\$ 0	\$ -392	\$ -1,898		
Deferred gain from property dispositions		\$ 0	\$ 0	\$ 0	\$ -1,000		
Allowance for Losses		\$ 0	\$ 0	\$ 120,314	\$ -120,314		
		\$ 5,942,897	\$ 1,037,095	\$ 1,529,578	\$ 10,598,001		

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

The mortgages securing IRET's loans may be, in certain instances, subordinate to mechanics' liens, materialmen's liens, or government liens and, in instances in which IRET invests in a junior mortgage, IRET may be required to make payments in order to maintain the status of the prior lien or to discharge it entirely. In certain areas, IRET might lose first priority of its lien to mechanics' or materialmen's liens due to wrongful acts of the borrower. It is possible that the total amount which may be recovered by IRET in such cases may be less than its total investment, with resultant losses to IRET. Loans made by IRET may, in certain cases, be subject to statutory restrictions limiting the maximum interest charges and imposing penalties, which may include restitution of excess interest, and, in some cases, may affect enforceability of the debt. There can be no assurance that all or a portion of the charges and fees

which IRET receives on its loans may not be held to exceed the statutory maximum, in which case IRET may be subjected to the penalties imposed by the statutes.

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

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

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

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

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

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

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

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

pay amounts due on our debt

There are also thousands of private limited partnerships organized to invest in real estate. Investments must thus be made by IRET in competition with such other entities as well. The yields available on mortgage and other real estate investments depend upon many factors, including the supply of money available for such investments and the demand for mortgage money. The presence of the foregoing competitors increases the price for real estate assets as well as the available supply of funds to prospective borrowers from IRET. All these factors, in turn, vary in relation to many other factors such as general and local economic conditions, conditions in the construction industry, opportunities for other types of investments,

international, national and local political affairs, legislation, governmental regulation, tax laws, and other factors. IRET cannot predict the effect that such factors will have on its operations.

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

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

No assurance can be given that a purchaser of IRET shares under this offering would be able to resell such shares when desired. Effective October 17, 1997, IRET shares of beneficial interest have been traded on the National Association of Securities Dealers Automated Quotation System Small Capitalization Market (NASDAQ). Since October 17, 1997, the average daily trading volume has been 13,827 and the average monthly trading volume through October 31, 2001, has been 285,902. As a result of this low trading volume, an owner of IRET shares will encounter difficulty in selling shares of IRET in a timely manner and may incur a substantial loss.

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

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

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

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

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

Additionally, IRET may refuse to allow a transfer or sale of its stock. As a result, an investor may be prevented from receiving the highest price possible for their shares, buying additional shares at a lower or favorable price, or even being able to buy or sell shares at any price. The Declaration of Trust specifically provides:

"To ensure compliance with the Internal Revenue Code provision that no more than 50% of the outstanding shares may be owned by five or fewer individuals, the trustees may at any time redeem shares from any shareholder at the fair market value thereof (as determined in good faith by the trustees based on an independent appraisal of trust assets made within six months of the redemption

date). Also, the trustee may refuse to transfer shares to any person whose

acquisition of additional shares might, in the opinion of the trustees, violate the above requirement."

#### **IRET Does Not Carry Insurance Against All Possible Losses**

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

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

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

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

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

A number of federal, state and local laws (including the Americans with Disabilities Act) and regulations exist that may require modifications to existing buildings or restrict certain renovations by requiring improved access to such buildings by disabled persons and may require other structural features which add to the cost of buildings under construction. Legislation or regulations adopted in the future may impose further burdens or restrictions on us with respect to improved access by disabled persons. The costs of compliance with these laws and regulations may be substantial, and limits or restrictions on construction or completion of certain renovations may limit implementation of our investment strategy in certain instances or reduce overall returns on our investments, which could have a material adverse effect on us and our ability to make distributions to you and to pay amounts due on our debt. We review our properties periodically to determine the level of compliance and, if necessary, take appropriate action to bring such properties into compliance. We believe, based on property reviews to date, that the

costs of such compliance should not have a material adverse effect on us. Such conclusions are based upon currently available information and data, and no assurance can be given that further review and analysis of our properties, or future legal interpretations or legislative changes, will not significantly increase the costs of compliance.

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

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

The balance of IRET's indebtedness in individual mortgage loans secured by individual commercial and residential properties totaled \$401,345,146 as of October 31, 2001. Of this amount, \$24,539,567 is subject to variable interest rate agreements and none will come due during the balance of Fiscal 2002, \$4,925,762 will come due during Fiscal 2003, and \$3,694,240 will come due during Fiscal 2004 and the remaining balance in later years.

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

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

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

As of October 31, 2001, of the total \$401,345,146 mortgage indebtedness outstanding, \$24,539,567 or 6.1% is subject to variable interest rate agreements. The range of interest rates on the variable rate mortgages are from 7% to 9.17%. An increase of 1% in the interest rate would collectively increase the interest payment by \$203,678 annually.

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

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

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

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

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

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

Under various federal, state, and local laws, ordinances and regulations, a current or previous owner or operator of real estate may be liable for the costs of removal or remediation of certain hazardous or toxic substances in, on, around, or under such property. Such laws often impose such liability without regard to whether the owner or operator knew of, or was responsible for, the presence of such hazardous or toxic substances. The presence of, or failure to remediate properly, such substances may adversely affect the owner's or operator's ability to sell or rent the affected property or to borrow using such property as collateral. Persons who arrange for the disposal or treatment of hazardous or toxic substances may also be liable for the costs of removal or remediation of such substances at a disposal or treatment facility, whether or not such facility is owned or operated by such person. Certain environmental laws impose liability for release of asbestos-containing materials into the air, and third parties may also seek recovery from owners or operators of real properties for personal injury associated with asbestos-containing materials and other hazardous or toxic substances. The operation and subsequent removal of certain underground storage tanks are also regulated by federal and state laws. In connection with the current or former ownership (direct or indirect), operation, management, development and/or control of real properties, we may be considered an owner or operator of such properties or as having arranged for the disposal or treatment of hazardous or toxic substances and, therefore, may be potentially liable for removal or remediation costs, as well as certain other costs, including governmental fines, and claims for injuries to persons and property.

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Our current policy is to obtain a Phase I environmental study on each property we seek to acquire and to proceed accordingly. No assurance can be given, however, that the Phase I environmental studies or other environmental studies undertaken with respect to any of our current or future properties will reveal all or the full extent of potential environmental liabilities, that any prior owner or operator of a property did not create any material environmental condition unknown to us, that a material environmental condition does not otherwise exist as to any one or more of such properties or that environmental matters will not have a material adverse effect on us and our ability to make distributions to you and to pay amounts due on our debt. It is the policy of IRET to obtain a Phase I environmental survey upon purchasing property. If the Phase I indicates any possible environmental problems, IRET's policy is to order a Phase II study which involves testing the soil and ground water for actual hazardous substances. We currently carry no insurance for environmental liabilities.

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

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

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

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

opinion of the Board to maintain or bring the direct or indirect ownership of IRET Shares of Beneficial Interest into conformity with the requirements for maintaining REIT status.

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

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

Although management believes that we are organized and are operating to qualify as a REIT under the Code, no assurance can be given that we have in fact operated or will be able to continue to operate in a manner to qualify or remain so qualified. Qualification as a REIT involves the application of highly technical and complex Code provisions for which there are only limited judicial or administrative interpretations and the determination of various factual matters and circumstances not entirely within our control. For example, in order to qualify as a REIT, at least 95% of our taxable gross income in any year must be derived from qualifying

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sources and we must make distributions to shareholders aggregating annually at least 90% of our REIT taxable income (excluding net capital gains). Thus, to the extent revenues from non qualifying sources such as income from third-party management represents more than 5% of our gross income in any taxable year, we will not satisfy the 95% income test and may fail to qualify as a REIT, unless certain relief provisions apply, and, even if those relief provisions apply, a tax would be imposed with respect to excess net income, any of which could have a material adverse effect on us and our ability to make distributions to you and to pay amounts due on our debt. Additionally, to the extent the Operating Partnership or certain other subsidiaries are determined to be taxable as a corporation, we would not qualify as a REIT, which could have a material adverse effect on us and our ability to make distributions to you and to pay amounts due on our debt. Finally, no assurance can be given that new legislation, new regulations, administrative interpretations or court decisions will not change the tax laws with respect to qualification as a REIT or the federal income tax consequences of such qualification.

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

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

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

**Competition By Trustees and Management** - Certain officers and trustees of IRET either directly or through entities controlled by them, are now engaged, and may engage in the future, in other real estate ownership, management or development activities for their own personal accounts.

Accordingly, certain conflicts of interest may arise with respect to the allocation of time and efforts of such entities and persons between their own personal activities and those of IRET. A failure by the trustees or management to allocate all of their time to IRET may adversely impact the financial performance of IRET.

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

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

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

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



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

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

<u>Type</u>	<u>Minimum</u>	<u>Maximum</u>	<u>Maximum Percentage</u>
Selling agent commission 8% of the amount sold	\$ 0	\$ 420,000	8.000%
Legal Fees	\$ 7,500	\$ 7,500	less than 1%
Advertising, Printing and Promotion Expenses	\$ 20,000	\$ 20,000	less than 1%
Registration Fees	\$ 10,500	\$ 10,500	less than 1%
Accounting Fees	\$ <u>5000</u>	\$ <u>5,000</u>	less than 1%
	\$ 43,000	\$ 463,500	8.820%

## Offering Compensation

The following table sets forth the fees and other compensation which IRET is to pay in association with this offering. No officer, trustee or employee of IRET will receive any additional compensation, bonus or fees as a result of the offering other than their normal salary as listed on pages 91 through 93. Additionally, no officer, trustee or employee of IRET will be selling any shares of IRET they own as part of this offering.

<u>Item of Compensation</u>	<u>Recipient</u>	<u>Amount / Method</u>
Incentive Fees	N/A	While authorized by the Restated Declaration of Trust, no incentive fees shall be paid to anyone. This may be changed by a vote of the Trustees at anytime with incentive fees then payable for future transactions as limited by the Restated Declaration of Trust.
Broker-Dealer Fees	Selling Brokerage Firms	Eight percent or \$.70 of each share sold for a total possible commission of \$420,000.
Advertising, Printing and Promotion Expenses		Up to \$20,000 may be paid as compensation for advertising and promotional expenses.

Experts' Fees	Pringle & Herigstad, P.C.	\$7,500 for legal fees, plus filing fees, accounting fees and printing costs estimated to be another \$35,500.
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## Determination of Offering Price

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

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

Second, we attempt to achieve an annual distribution rate of 6.5% based on the selling price of new shares. As of October 31, 2001, our historical distribution rate over the prior 12 months of \$0.575 based on the goal of a 6.5% distribution yield suggests an offering price of \$8.85.

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

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

## Effective Date of Offering

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

## Dilution

The book value of IRET shares of beneficial interest is substantially less than the purchase price to new shareholders under this Offering. As of January 1, 2002, the book value of the 27,030,009 shares outstanding was \$5.24 per share. Assuming all of the shares registered under this offering are sold, the estimated resulting book value will be \$5.30 per share. Thus, a purchasing shareholder paying \$8.75 per share under this offering will incur an immediate book value dilution of \$3.45 per share.

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## Plan of Distribution

For the sole purpose of selling the shares to be offered pursuant to this prospectus, IRET has entered into Security Sales Agreements with a number of broker/dealers who are members of the National Association of Security Dealers

(NASD). Broker/dealers participating in this offering are considered statutory underwriters pursuant to Section 2a(11) of the Securities Act of 1933. None of the broker/dealers involved are required to take and pay for or to sell a specific number of shares. This offering shall be conducted on a best efforts basis under which a participating broker/dealer is required to take and pay for only those shares that are actually sold to the public. All shares of IRET available for sale to the public will be available for purchase through broker/dealers who have signed a selling agreement with IRET. The shares offered will only be sold for cash payable in United States Dollars. There will be no other distribution or sale of IRET shares to the public except through IRET's distribution reinvestment plan available only to current IRET shareholders. See page 88 - "Distribution Reinvestment Plan."

It is IRET's plan to request the following NASD registered broker/dealers to use their best efforts to sell the IRET shares offered under this prospectus to the public:

American Investment Services, Inc.	Investment Centers of America, Inc.
Berthel Fisher & Co.	ND Capital, Inc.
D. A. Davidson & Co.	Primevest Financial Services, Inc.
Huntingdon Securities Corporation	Proequities, Inc.
Inland National Securities, Inc.	Protective Group Securities
INVEST Financial	Raymond James Financial Services, Inc.

John F. Decker is an employee of D.A. Davidson & Co. and is a Trustee of IRET. Please see "Management" on page 94.

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

- \* For each share sold and paid for, IRET will pay a commission of 8% or \$.70 per share. There will be no discounts, other compensation, commissions, finders fees or other compensation paid to any broker/dealer.
- \* Subject only to a minimum purchase of 100 shares, no broker/dealer is required to sell a minimum number of shares.
- \* There may be limits on the number of shares a particular broker/dealer may sell.
- \* No more than the total offering of 600,000 shares may be sold.
- \* Either IRET or the broker/dealer may terminate the Security Sales Agreement at anytime without penalty or further obligation.
- \* Except as otherwise agreed by IRET, IRET has not agreed to indemnify broker/dealers for liability arising under the Securities Act.

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

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

## Who May Invest

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

<u>State</u>	<u>Income or Net Worth Requirements</u>	<u>Minimum Purchase</u>
Minnesota	None	100 shares or \$875.00
Montana	None	100 shares or \$875.00
North Dakota	None	100 shares or \$875.00
South Dakota	None	100 shares or \$875.00
Washington	None	100 shares or \$875.00

## Use of Proceeds

We plan to use the proceeds to increase our capital for other real estate additions or acquisitions. The money raised by this offering will be used to purchase real estate which generally meets the following standards:

- \* Located in the states of Minnesota, Nebraska, South Dakota, Colorado, Montana or North Dakota.
- \* Either a multi-family apartment complex with historical occupancy for the previous 24 months of 85% or better or a commercial office, warehouse or retail building currently leased to tenants occupying at least 90% or more of the space.
- \* The property is not a hotel/motel or undeveloped raw land.
- \* The appraised value of the property is equal to or greater than the purchase price.

As of the date of this prospectus, we have not identified any specific properties which satisfy the criteria listed above. Even in the event we do not identify a particular property or do not raise enough money under this offering to buy any additional real estate, we will not return your money.

The Board of Trustees will have broad discretion on how to invest the proceeds and may change the investment criteria at any time without notice to or approval of the shareholders.

Pending any real estate purchases, the net proceeds will be invested in United States Treasury Bonds with terms of six (6) months or less.

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

	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>
Consolidated Income Statement Data					
Revenue	\$ 75,767,150	\$ 55,445,193	\$ 39,927,262	\$ 32,407,545	\$ 23,833,981
Income before gain/loss on properties and minority interest	\$ 10,187,812	\$ 8,548,558	\$ 6,401,676	\$ 4,691,198	\$ 3,499,443
Gain on repossession/ Sale of properties	\$ 601,605	\$ 1,754,496	\$ 1,947,184	\$ 465,499	\$ 398,424
Minority interest of portion of operating partnership income	\$ -2,095,177	\$ -1,495,209	\$ -744,725	\$ -141,788	\$ -18
Net income	\$ 8,694,240	\$ 8,807,845	\$ 7,604,135	\$ 5,014,909	\$ 3,897,849
Consolidated Balance Sheet Data					
Total real estate investments	\$548,580,418	\$418,216,516	\$280,311,442	\$213,211,369	\$177,891,168
Total assets	\$570,322,124	\$432,978,299	\$291,493,311	\$224,718,514	\$186,993,943
Shareholders' equity	\$118,945,160	\$109,920,591	\$ 85,783,294	\$ 68,152,626	\$ 59,997,619
Per Share					
Net Income	\$ .38	\$ .42	\$ .44	\$ .32	\$ .28
Dividends	\$ .55	\$ .51	\$ .47	\$ .42	\$ .39
Calendar Year					
Tax status of dividend	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>
Capital gain	.72%	30.3%	6.3%	2.9%	21.0%
Ordinary income	86.76%	69.7%	76.0%	97.1%	79.0%
Return of capital	12.52%	0%	17.7%	0.0%	0.0%

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

### **General**

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

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

On July 1, 2000, IRET became "self-advised" as a result of the acquisition of the advisory business and assets of Odell-Wentz and Associates, L.L.C. Prior to that date, Odell-Wentz had been the advisor to the Trust and had furnished office space, employees, and equipment to conduct all of the day-to-day operations of IRET. The Operating Partnership issued 255,000 of its limited partnership units to Odell-Wentz and Associates, L.L.C. in exchange for the advisory business and assets. The valuation of the advisory business and assets of \$2,083,350 was determined by an

independent appraisal of the business and assets by a certified public accounting firm not otherwise employed by either IRET or the advisory company. All employees of the advisory company became employees of IRET Properties on July 1, 2000, with the exception of Roger R. Odell who retired.

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

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

**Results of Operations**  
**Three Months and Six Months Ended October 31, 2001 and 2000**

**Revenues**

Total IRET revenues for the second quarter of Fiscal 2002 ended October 31, 2001, were \$23,175,041 compared to \$18,404,260 received in the second quarter of the prior fiscal year ended October 31, 2000. This is an increase of \$4,770,781 or 25.9%.

Total revenues for the first six months of Fiscal 2002 ended October 31, 2001, were \$44,955,135 compared to \$35,835,904, an increase of 25.4% for the first six months of the prior fiscal year ended October 31, 2000. These increases are primarily attributable to the addition of new properties to IRET's investment portfolio.

**Capital Gain Income**

IRET realized capital gain income of \$16,398 during the second quarter of Fiscal 2002 ended October 31, 2001. This resulted from the sale of the Lester Chiropractic building in Bismarck, North Dakota, at a gain of \$85,279, and the sale of marketable securities available for sale at a loss of \$68,881.

Total capital gain income for the first six months of Fiscal 2002 ended October 31, 2001, was \$324,332. In addition to the two items listed in the previous paragraph, capital gain income for the first six months for Fiscal 2002 included a gain of \$296,409 from the sale of the Sunchase Apartments, a 36-unit apartment complex in Fargo, North Dakota, and a gain of \$11,525 from the sale of marketable securities held to maturity. Both events occurred in the first quarter of Fiscal 2002. No capital gain income was realized in the first six months of the prior fiscal year ended October 31, 2000.

**Expenses and Net Income**

The following table shows the changes in revenues, operating expenses, interest, and depreciation for the three months and six months ended October 31, 2001, as compared to the three months and six months ended October 31, 2000:

<u>Three Months Ended</u>	<u>10/31/01</u>	<u>10/31/00</u>
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			Percent Change
Real Estate Rental Income	\$ 22,877,520	\$ 18,216,163	25.6%
Real Estate Operating Expenses			
Utilities and Maintenance	\$ 3,190,626	\$ 2,775,648	15.0%
Real Estate Taxes	2,234,148	1,712,556	30.5%
Insurance	313,713	174,471	79.8%
Property Management	1,730,144	1,369,059	26.4%
Interest on Mortgage Indebtedness	<u>\$ 7,117,923</u>	<u>\$ 5,900,611</u>	<u>20.7%</u>
Total Property Expenses	<u>\$ 14,586,554</u>	<u>\$ 11,932,345</u>	<u>22.3%</u>
Net Real Estate Operating Income	\$ 8,290,966	\$ 6,283,818	32.0%
Interest Discount and Fee Income	297,521	188,097	58.2%
Other Interest Expense	-479,116	-186,827	156.5%
Depreciation	-3,718,328	-3,042,137	22.3%
Administrative Trustee & Operating	-512,912	-419,905	22.2%
Amortization Expense	-134,716	-115,235	16.9%
Gain on Sale of Investments	16,398	0	100.0%
Minority Interest in Other Partnerships	-86,554	0	N/A
Minority Interest Portion of Operating Partnership			
Income	<u>\$ -727,344</u>	<u>\$ -538,618</u>	<u>35.1 %</u>
Net Income for Generally Accepted Accounting			
Purposes	<u>\$ 2,945,915</u>	<u>\$ 2,169,193</u>	<u>35.8 %</u>

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**Expenses and Net Income - continued**

<u>Six Months Ended</u>	<u>10/31/01</u>	<u>10/31/00</u>	Percen <u>Change</u>
Real Estate Rental Income	\$ 44,445,900	\$ 35,508,138	25.2%
Real Estate Operating Expenses			
Utilities and Maintenance	\$ 6,162,434	\$ 5,388,844	14.4%
Real Estate Taxes	4,349,779	3,400,798	27.9%
Insurance	628,398	341,752	83.9%
Property Management Expenses	3,360,223	2,779,561	20.9%
Interest on Mortgage Indebtedness	<u>\$ 14,138,640</u>	<u>\$ 11,409,775</u>	<u>24.0 %</u>
Total Property Expenses	<u>\$ 28,639,474</u>	<u>\$ 23,320,730</u>	<u>22.8%</u>
Net Real Estate Operating Income	\$ 15,806,426	\$ 12,187,408	29.7%
Interest Discount and Fee Income	509,235	327,766	55.4%
Other Interest Expense	-656,777	-368,628	78.2%
Depreciation	-7,375,090	-5,698,346	29.5%
Administrative Trustee & Operating	-1,025,841	-964,344	6.4%
Amortization Expense	-263,672	-210,914	25.1%
Gain on Sale of Investments	324,332	0	100.0%
Minority Interest in Other Partnerships	-143,309	0	N/A
Minority Interest Portion of Operating			
Partnership Income	<u>\$ -1,453,661</u>	<u>\$ -964,285</u>	<u>50.8 %</u>
Net Income for Generally Accepted Accounting			
Purposes	<u>\$ 5,721,643</u>	<u>\$ 4,308,657</u>	<u>32.8 %</u>

The above described changes result primarily from the addition of new real estate assets to IRET's portfolio. The increase in insurance costs resulted from an increase in the general level of premiums for property casualty insurance.

#### Anticipated Increase in Insurance Expense

IRET's blanket casualty and liability insurance policy, which covers all of its residential properties and most of its commercial properties, will expire April 30, 2002. Because of the September 11, 2001, terrorist attacks, IRET expects a substantial increase in its insurance premiums beginning with fiscal year 2003, which commences May 1, 2002, but is not able to quantify the amount of the expected increase at this time.

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#### Comparison of Residential and Commercial Properties

The following is a comparison of the net operating income from the two types of real estate investments owned by IRET - residential and commercial - for the three months and six months ended October 31, 2001 and 2000:

#### Net Real Estate Operating Income

<u>Three Months Ended</u>	<u>10/31/01</u>	<u>10/31/00</u>	<u>Percent Change</u>
Segment			
Residential	\$ 5,301,569	\$ 4,809,146	10.3%
Commercial	\$ <u>2,989,397</u>	\$ <u>1,474,672</u>	<u>102.8%</u>
Total	\$ <u>8,290,966</u>	\$ <u>6,283,818</u>	<u>32.0</u>

<u>Six Months Ended</u>	<u>10/31/01</u>	<u>10/31/00</u>	<u>PercentChange</u>
Segment			
Residential	\$ 9,204,045	\$ 8,611,629	6.9%
Commercial	\$ <u>6,602,381</u>	\$ <u>3,575,779</u>	<u>84.7 %</u>
Total	\$ <u>15,806,426</u>	\$ <u>12,187,408</u>	<u>29.7 %</u>

The growth in the two operating segments resulted primarily from the acquisition of real estate properties during the prior and current fiscal years.



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### Occupancy Rates

Occupancy rates are calculated as a percentage of the actual rent paid to IRET versus the scheduled rent charged by IRET for the period of time presented. The following tables compare occupancy rates for stabilized properties for the three months and six months ended October 31, 2001 and 2000:

<u>Three Months Ended</u>	<u>10/31/01</u>	<u>10/31/00</u>	<u>Percent Change</u>
Segment			
Residential	96.12%	94.72%	1.4%
Commercial	98.82%	98.55%	.3%
<u>Six Months Ended</u>	<u>10/31/01</u>	<u>10/31/00</u>	<u>Percent Change</u>
Segment			
Residential	95.42%	94.12%	1.3%
Commercial	99.07%	98.50%	.6%

### Property Acquisitions and Dispositions

During the six months ended October 31, 2001, IRET acquired three commercial properties and two apartment complexes:

	<u>Acquisition Cost</u>
<u>Commercial Property</u>	
15,217 sq. ft. - Cottage Grove Retail Strip Center - Cottage Grove, MN	\$ 1,101,550
105,084 sq. ft. - Interlachen Corporation Center - Edina, MN	\$ 16,691,307
114,819 sq. ft. - Bloomington Business Plaza - Bloomington, MN	\$ 7,405,669
<u>Apartments</u>	
109 units - Canyon Lake Plaza Apartments - Rapid City, SD	\$ 4,270,607
284 units - Applewood on the Green - Omaha, NE	\$ 10,364,745

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

The Lester Chiropractic Building in Bismarck, North Dakota, was sold during the second quarter of Fiscal 2001 at a gain of \$85,279.

**Funds From Operations**

IRET considers Funds from Operations ("FFO") a useful measure of performance for an equity REIT. FFO is defined as net income available to shareholders determined in accordance with accounting principles generally accepted in the United States of America ("GAAP"), excluding gains (or losses) from debt restructuring and sales of property, plus depreciation of real estate assets, and after adjustment for unconsolidated partnerships and joint ventures.

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IRET uses the National Association of Real Estate Investment Trusts ("NAREIT") definition of FFO as amended by NAREIT to be effective January 1, 2000. FFO for any period means the net income of the company for such period, excluding gains or losses from debt restructuring and sales of property, and plus depreciation and amortization of real estate assets in IRET's investment portfolio, and after adjustment for unconsolidated partnerships and joint ventures, all determined on a consistent basis in accordance with GAAP.

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

FFO should not be considered as an alternative to net income as determined in accordance with accounting principles generally accepted in the United States of America as a measure of IRET's liquidity, nor is it necessarily indicative of sufficient cash flow to fund all of IRET's needs or its ability to service indebtedness or make distributions.

Funds from Operations for IRET for the three months ended October 31, 2001, increased to \$7,436,176 compared to \$5,749,948 for the three months ended October 31, 2000, an increase of 29.4%.

Funds from Operations for IRET for the six months ended October 31, 2001, increased to \$14,335,235 compared to \$10,971,288 for the six months ended Fiscal 2000, an increase of 30.7%.

Calculations of Funds from Operations for IRET are as follows:

<u>Three Months Ended</u>	<u>10/31/01</u>	<u>10/31/00</u>	<u>Percent Change</u>
Net Income available to IRET shareholders and unitholders from operations and capital gains	\$ 3,759,813	\$ 2,707,811	38.9%
Less gain from property sales	\$ <u>16,398</u>	<u>0</u>	<u>100.0%</u>
Operating Income	\$ 3,743,415	\$ 2,707,811	38.3%
Plus real estate depreciation and amortization (1)	\$ <u>3,692,761</u>	\$ <u>3,042,137</u>	<u>21.4 %</u>
Funds From Operations	\$ <u>7,436,176</u>	\$ <u>5,749,948</u>	<u>29.4 %</u>

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Weighted average shares and units outstanding - diluted (2)	32,510,747	28,541,676	13.9%
Distributions paid to Shareholders Unitholders (3)	\$ 4,758,010	\$ 3,800,495	25.2%

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<u>Six Months Ended</u>	<u>10/31/01</u>	<u>10/31/00</u>	<u>Percent Change</u>
Net Income available to IRET shareholders and unitholders from operations and capital gains	\$ 7,318,613	\$ 5,272,942	38.8%
Less gain from property sales	\$ <u>324,332</u>	\$ <u>0</u>	<u>100.0%</u>
Operating Income	\$ 6,994,281	\$ 5,272,942	32.7%
Plus real estate depreciation and amortization (1)	\$ <u>7,340,954</u>	\$ <u>5,698,346</u>	<u>28.9 %</u>
Funds From Operations	\$ <u>14,335,235</u>	\$ <u>10,971,288</u>	<u>30.7 %</u>
Weighted average shares and units outstanding - diluted (2)	32,122,649	27,951,380	14.9%
Dividends and Distributions paid to Shareholders/Unitholders (3)	\$ 9,335,971	\$ 7,402,773	26.2%

- (1) *Depreciation on office equipment and other assets used by IRET are excluded. Amortization of financing and other expenses are excluded, except for amortization of leasing commissions that are included.*
- (2) *Limited Partnership Units of the operating partnership, IRET Properties, a North Dakota Limited Partnership, are exchangeable for shares of beneficial interest of Investors Real Estate Trust only on a one-for-one basis.*
- (3) *Distributions made equally on shares and units.*

### Distributions

The following distributions were paid during the first six months ended October 31, of fiscal years 2001 and 2000:

<u>Date</u>	<u>2001</u>	<u>2000</u>	<u>Percent Change</u>
July 1	\$ .1450	\$ .1325	9.4%
October 1	\$ .1475	\$ .1350	9.3%

The Board of Trustees of IRET has declared a distribution of \$.15 per share payable January 17, 2002, to shareholders of record at the close of business on January 2, 2002. The ex-dividend date will be December 27, 2001.

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### Liquidity and Capital Resources

The important changes in IRET's balance sheet during the first six months of Fiscal 2002 ended October 31, 2001, were:

\* **Real Estate Owned**

Real estate owned increased to \$637,805,923 from the April 30, 2001, figure of \$591,636,468. The increase primarily resulted from the acquisition of additional investment properties net of dispositions as described below:

Acquired

Cottage Grove Retail Strip Center	\$	1,101,550
Interlachen Corporation Center	\$	16,691,307
Canyon Lake Plaza Apartments	\$	4,270,607
Bloomington Business Plaza	\$	7,405,669
Applewood on the Green	\$	10,364,745

Disposed

Sunchase Apartments	\$	-1,042,210
Lester Chiropractic Center	\$	- 268,917

\* **Mortgage Loans Receivable**

Mortgage loans receivable increased to \$5,942,897 as of October 31, 2001, from \$1,037,095 from April 30, 2001. This increase resulted from the \$3,200,000 short-term loan to Mankato Plaza Associates and the \$1,713,307 advance of short-term construction loan to Edgewood Vista, net of receipts.

\* **Cash**

Cash on hand on October 31, 2001, was \$19,994,239 compared to \$6,356,063 on April 30, 2001. This increase resulted from the proceeds of the sale of marketable securities, new mortgages on existing properties, as well as the sale of investment certificates.

\* **Marketable Securities**

During the second quarter ended October 31, 2001, IRET sold its marketable securities classified as held-to-maturity. IRET sold its investment in marketable securities classified as available-for-sale in the first quarter ended July 31, 2001.

\* **Mortgages Payable**

Mortgages payable on October 31, 2001, totaled \$401,345,146 compared to \$368,956,930 at April 30, 2001. This increase resulted from refinancing of maturing mortgages and the placement of new mortgages. The average weighted interest rate payable on the outstanding indebtedness on October 31, 2001, was 7.78%.

\* **Investment Certificates**

Investment Certificates outstanding on October 31, 2001, totaled \$25,875,441, compared to \$11,876,417. This increase resulted from the sale of new investment certificates to North Dakota residents as well as the reinvestment of accruing interest on outstanding investment certificates.

\* **Operating Partnership Units**

Outstanding Limited Partnership Units in the Operating Partnership increased to 8,433,295 Partnership Units on October 31, 2001, as compared to the 7,527,151 Units outstanding on April 30, 2001. The increase resulted from the issuance of additional Partnership units to acquire the Cottage Grove Retail Center, Bloomington Business Center, and the Canyon Lake Plaza Apartments.

\* **Shares of Beneficial Interest**

Shares of Beneficial Interest outstanding on October 31, 2001, totaled 24,530,009 as compared to the 24,068,346 shares outstanding on April 30, 2001. This increase resulted from the issuance of additional shares pursuant to IRET's distribution reinvestment plan.

As of October 31, 2001, IRET has entered into contracts to acquire the following real estate investments:

Property	<u>Total Cost</u>	<u>Loan or UPREIT Contribution</u>	<u>Cash Required</u>
113,736 sq. ft. Thresher East & West Office Building - Minneapolis, MN	\$ 11,350,000	\$ 10,950,000	\$ 400,000
23 Unit Pinehurst Apartment Complex - Billings, MT	<u>715,000</u>	<u>715,000</u>	<u>0</u>
Total	<u>\$ 12,065,000</u>	<u>\$ 11,665,000</u>	<u>\$ 400,000</u>

In addition to the above acquisitions, IRET is committed to provide construction financing for an assisted living and Alzheimer care facility in Virginia, Minnesota, for \$7,000,000, of which \$1,713,307 was advanced as of October 31, 2001.

In addition to cash on hand of \$19,994,239 on October 31, 2001, IRET has unsecured line of credit agreements with First International Bank & Trust, Bremer Bank, and First Western Bank & Trust, all of Minot, North Dakota, totaling \$17,500,000, none of which were in use on October 31, 2001, nor on April 30, 2001.

IRET believes that its existing cash and borrowing capacities are adequate to fund all of its acquisition and development obligations and all of its other short and long-term liquidity requirements. IRET believes that its net cash provided by operations will continue to be adequate to meet both operating requirements and the payment of dividends in accordance with Internal Revenue Code provisions pertaining to real estate investment trusts in both the short and long term.

Budgeted expenditures for ongoing maintenance, capital improvements and renovations to its real estate portfolio are expected to be funded from the cash flow generated from the operation of these properties.

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## Results From Operations for the Fiscal Years Ended April 30, 2001, 2000, and 1999

IRET operates on a fiscal year ending on April 30. The following discussion and analysis is for the fiscal years ended April 30, 2001, 2000, and 1999.

### Revenues

Total revenues of the Operating Partnership for Fiscal 2001 were \$75,767,150, compared to \$55,445,193 in Fiscal 2000 and \$39,927,262 in Fiscal 1999. The increase in revenues received during Fiscal 2001 in excess of the prior year revenues was \$20,321,957. This increase resulted from:

Rent from 28 properties acquired/completed in Fiscal 2001	\$ 6,890,585
Rent from 27 properties acquired in Fiscal 2000 in excess of that received in 2000	\$ 12,888,919
Increase in rental income on existing properties	\$ 93,420
A decrease in Boise Warehouse rent ( <i>bankruptcy of tenant</i> )	\$ -36,301
A decrease in rent - properties sold in 2001	\$ -32,404
A decrease in interest income	\$ -371,585
An increase in straight line rents	\$ 383,015
An increase in ancillary income	\$ <u>506,308</u>
	\$ 20,321,957

The increase in revenues received during Fiscal 2000 in excess of that received in Fiscal 1999 was \$15,517,931. This increase resulted from:

Rent from 27 properties acquired/completed in Fiscal 2000	\$ 10,206,154
Rent from 12 properties acquired in Fiscal 1999 in excess of that received in 1999	\$ 4,419,227
An increase in rental income on existing properties	\$ 579,151
A decrease in rent on the Boise, Idaho Furniture Store ( <i>bankruptcy of tenant</i> )	\$ -38,622
A decrease in rent - properties sold during 1999	\$ -524,680
An increase in interest income	\$ 45,337
An increase in rent ( <i>straight-line calculations</i> )	\$ <u>831,364</u>
	\$ 15,517,931

As shown by the above analysis, the Fiscal 2001 and 2000 increases in revenues resulted primarily from the addition of new real estate properties to the Operating Partnership's portfolio. Rents received on properties owned at the beginning of Fiscal 2000 increased by \$579,151 in Fiscal 2000 and only \$93,420 in Fiscal 2001. Thus, new properties generated most of the new revenues during the past two years.

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**Capital Gain Income**

The Operating Partnership realized capital gain income for Fiscal 2001 of \$601,605. This compares to \$1,754,496 of capital gain income recognized in Fiscal 2000 and the \$1,947,184 recognized in Fiscal 1999. A list of the properties sold during each of these years showing sales price, depreciated cost plus sales costs and net gain (loss) is included in a later section of this discussion.

**Expenses and Net Income**

The Operating Partnership's operating income for fiscal year 2001 increased to \$10,187,812 from \$8,548,558 earned in Fiscal 2000 and \$6,401,676 earned in Fiscal 1999. IRET's Net Income for generally accepted accounting purposes for Fiscal 2001 was \$8,694,240, compared to \$8,807,845 in Fiscal 2000 and \$7,604,135 in Fiscal 1999. On a per share basis, net income was \$.38 per share in Fiscal 2001 compared to \$.42 in Fiscal 2000 and \$.44 in Fiscal 1999.

These changes in Operating Income and Net Income result from the changes in revenues and expenses detailed below:

For Fiscal 2001, a decrease in net income of \$113,605, resulting from:

A decrease in gain on sale of investments	\$	-1,152,891
An increase in net rental income	\$	12,572,228
A decrease in interest income	\$	-371,585
An increase in ancillary income	\$	506,308
An increase in interest expense	\$	-8,217,228
An increase in depreciation expense	\$	-3,839,420
An increase in operating expenses, administrative, advisory & trustee services	\$	-119,274
An increase in amortization expense	\$	-212,091
An increase in minority interest of operating partnership	\$	-598,968
A decrease in loss on impairment	\$	<u>1,319,316</u>
	\$	-113,605

The \$1,203,710 increase in net taxable income for Fiscal 2000 over the net income earned in the prior fiscal year resulted from:

A decrease in gain from sale of investments	\$	-192,688
An increase in net rental income ( <i>rents, less utilities, maintenance, taxes, insurance and management</i> )	\$	11,432,978
An increase in interest income	\$	45,337
An increase in interest expense	\$	-4,912,189
An increase in depreciation expense	\$	-2,493,238
An increase in operating expenses and advisory trustee services	\$	-545,270
An increase in amortization expense	\$	-61,420
An increase in minority interest of operating partnership income	\$	-750,484
An increase in loss on impairment of properties	\$	<u>-1,319,316</u>
	\$	1,203,710

**Telephone Endorsement Fee**

During Fiscal 2001, IRET received a payment of \$869,505 from a major telecommunications provider for allowing marketing access by that company to residents of apartment communities owned by IRET, totaling 5,863 units. The contract provides that IRET will allow promotional materials to be placed in its apartment communities advertising the availability of telecommunication services over a 12-year period. Of this payment, \$110,979 was recognized as income by IRET during Fiscal 2001. The balance of \$758,526 will be recognized ratably over the remaining portion of the contract period and there is a possibility of a refund of these monies if IRET should violate the contractual terms of the agreement.

**Comparison of Results from Commercial and Residential Properties**

The following is an analysis of the contribution by each of the two categories of real estate owned by IRET - residential and commercial - to IRET revenues as compared to the year-end depreciated cost of each:

Fiscal Years Ended 4/30	<u>2001</u>	<u>%</u>	<u>2000</u>	<u>%</u>	<u>1999</u>	<u>%</u>
<i>Property Cost - less depreciation</i>						
Commercial	\$ 218,261,880	40%	\$ 112,511,467	27%	\$ 60,141,248	22%
Residential	<u>\$ 329,281,443</u>	<u>60%</u>	<u>\$ 304,175,471</u>	<u>73%</u>	<u>\$ 209,572,192</u>	<u>78%</u>
Total	\$ 547,543,323	100%	\$ 416,686,938	100%	\$ 269,713,440	100%
<i>Revenues</i>						
Commercial	\$ 18,994,010	25%	\$ 11,878,026	22%	\$ 5,775,161	15%
Residential	<u>\$ 55,806,712</u>	<u>75%</u>	<u>\$ 42,379,855</u>	<u>78%</u>	<u>\$ 33,010,126</u>	<u>85%</u>
Total	\$ 74,800,722	100%	\$ 54,257,881	100%	\$ 38,785,287	100%
<i>Expenses - before depreciation - see Note 11 to Financial Statement for detail</i>						
Commercial	\$ 10,649,488	21%	\$ 6,417,909	18%	\$ 2,814,299	11%
Residential	<u>\$ 39,500,071</u>	<u>79%</u>	<u>\$ 29,288,023</u>	<u>82%</u>	<u>\$ 22,440,129</u>	<u>89%</u>
Total	\$ 50,149,559	100%	\$ 35,705,932	100%	\$ 25,254,428	100%
<i>Segment Gross Profit - before depreciation</i>						
Commercial	\$ 8,344,522	34%	\$ 5,460,117	29%	\$ 2,960,862	22%
Residential	<u>\$ 16,306,641</u>	<u>66%</u>	<u>\$ 13,091,832</u>	<u>71%</u>	<u>\$ 10,569,997</u>	<u>78%</u>
Total	\$ 24,651,163	100%	\$ 18,551,949	100%	\$ 13,530,859	100%

**Charge for Impairment of Value Fiscal 2000**

During fiscal 2000, IRET reduced the value of two properties to reflect the reduced rental income expected to be received from the properties. The properties are the Boise warehouse, Boise, Idaho, and the First Avenue building, Minot, North Dakota. Based on the reduced rental income the Boise building's value was reduced by \$1,008,114 and First Avenue by \$311,302. The Boise warehouse is vacant and has been for the last 18 months. First Avenue is mostly occupied but at rents below those necessary to justify the building's acquisition cost.

**Commercial Properties - Analysis of Lease Expirations and Credit Exposure**

The following table shows the annual lease expiration percentages for the commercial properties owned by IRET for Fiscal years 2001 through 2010 and the leases that will expire during Fiscal year 2011 and beyond.



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<u>Year of Lease Expiration</u>	<u>Square Footage of Expiring Leases</u>	<u>Percentage of Total Leased Square Footage</u>	<u>Annualized Base Rent of Expiring Leases at Expiration</u>	<u>Percentage of Total Annualized Base Rent</u>
2001	111,548	4.40%	\$ 165,396	0.75%
2002	164,941	6.60%	\$ 1,468,440	6.64%
2003	156,327	6.20%	\$ 908,393	4.11%
2004	152,845	6.10%	\$ 1,342,386	6.07%
2005	128,214	5.10%	\$ 1,170,815	5.29%
2006	64,743	2.60%	\$ 727,858	3.29%
2007	128,827	5.10%	\$ 766,844	3.47%
2008	96,301	3.80%	\$ 1,113,073	5.03%
2009	81,016	3.20%	\$ 592,695	2.68%
2010	102,999	4.10%	\$ 1,228,872	5.55%
2011 and beyond	<u>1,325,757</u>	<u>42.80%</u>	<u>\$ 12,642,660</u>	<u>57.14%</u>
Total	2,513,518	100.00%	\$ 22,127,432	100.00%

The following table shows the percentage of commercial leases by size of leased space in 10,000 square foot increments:

<u>Square Feet Under Lease</u>	<u>Percentage of Aggregate Portfolio Leased Square Feet</u>	<u>Annualized Base Rent</u>	<u>Percentage of Aggregate Portfolio Annualized Base Rent</u>
10,000 or Less	13.93%	\$ 3,245,361	14.67%
10,001 - 20,000	14.75%	\$ 3,044,041	13.76%
20,001 - 30,000	14.50%	\$ 2,987,722	13.50%
30,001 - 40,000	7.75%	\$ 1,426,070	6.44%
40,001 - 50,000	9.94%	\$ 2,191,103	9.90%
50,001 +	<u>39.14%</u>	<u>\$ 9,233,134</u>	<u>41.73%</u>
Total	100.00%	\$ 22,127,431	100.00%

### Significant Properties

During Fiscal 2000 and 2001, IRET acquired one apartment community (Dakota Hill - Irving, Texas acquired during fiscal year 2000) and two commercial properties (HealthEast Medical in Maplewood and Woodbury, Minnesota acquired in fiscal 2000 and Southdale Medical Center in Edina, Minnesota acquired in fiscal year 2001) where the purchase price exceeded 10% of the corresponding IRET portfolio for apartments in the case of Dakota Hill and commercial in the case of HealthEast and Southdale.

However, none of the acquisitions exceeded 10% of IRET's total portfolio value or account for more than 10% of IRET's gross or net income.

The details of such acquisitions and their performance since acquisition are as follows:

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	<u>Dakota Hill</u>	<u>HealthEast</u>	<u>Southdale Medical*</u>
Description	504-unit Class A Apartment Community	114,216 Square Feet Medical Office Buildings	195,983 Square Feet Medical Office Buildings
Address	7902 North MacArthur - Irving, TX	St. Johns Medical Office Building - 1600 Beam Ave, Maplewood, MN  Woodwinds Medical Office Bldgs. - 1875 Woodwinds Dr, Woodbury, MN	6545 France Ave S, Edina, MN
Date of Acquisition	02/01/2000	05/01/2000	12/13/2000
Purchase Price	\$37,473,258	\$21,600,999	\$32,421,070
Loan	\$25,550,000	\$19,482,851	\$24,000,000
Interest Rate - fixed for 10 years or longer	7.88%	7.940%	7.8%
Cash Investment	\$10,152,420	\$ 1,775,978	\$ 5,000,000
Fiscal 2001			
Rental Income	\$ 5,339,716	\$ 1,916,636	\$ 954,315
Expenses	\$ <u>-2,461,696</u>	\$ <u>- 0</u>	\$ <u>- 30,852</u>
Gross Income	\$ 2,878,020	\$ 1,916,636	\$ 923,463
Mortgage Interest Paid	\$ -2,002,678	\$ -1,533,964	\$ -686,068
Depreciation	\$ <u>-859,058</u>	\$ <u>-439,868</u>	\$ <u>-210,883</u>
Net Income	\$ 16,284	\$ -57,196	\$ 26,512
Fiscal 2000			
Rental Income	\$ 1,300,317	n/a	n/a
Expenses	\$ <u>-376,642</u>	n/a	n/a
Gross Income	\$ 923,675	n/a	n/a
Mortgage Interest Paid	\$ -502,988	n/a	n/a
Depreciation	\$ <u>-176,361</u>	n/a	n/a
Net Income	\$ 244,326	n/a	n/a

\* IRET owns a 60% interest in this property. Data shown is the full income and expense for this property.

**Significant Tenants of IRET**

The following table shows the lessees of commercial property that account for five percent or more of the total

commercial rent on May 1, 2001, from all commercial properties owned by IRET:

<u>Lessee</u>	<u>Monthly Rent</u>	<u>Commercial Rent</u>
Step II, Inc. DBA Edgewood Vista	\$ 197,547	9.70%
HealthEast Medical	\$ 159,720	7.8%
Great Plains Software, a subsidiary of Microsoft, Inc.	\$ 156,250	7.7%
All Others	\$ <u>1,524,190</u>	<u>74.8%</u>
Total Scheduled Rent on May 1, 2001	\$ 2,037,707	100.0%

As of this date, two tenants of commercial space have filed for bankruptcy protection under Chapter 11 of the bankruptcy code. Carmike Theatres is the lessee of a 28,300 square foot theatre in Grand Forks, North Dakota with a monthly rent of \$23,654 and Teligent Communications, Inc. is the lessee of 21,677 square feet in the Lexington Commerce Center, Eagan, Minnesota with a monthly rent of \$11,182, plus common area charges of \$4,571. Teligent has the right to reject its lease obligations and vacate the leased premises. Carmike has reaffirmed its lease, but still remains in Chapter 11 bankruptcy. At this time, both are paying rent and remain in possession.

### Current Economic Slowdown

As of September 2001 there appears to have been little economic impact on IRET as a result of the recently publicized economic slowdown. Changes in the economic condition of country generally do not begin to affect real estate type operations until 6 to 12 months after the economic slowdown begins. This is due to the fact that most properties are already leased for a term of 6 to 12 months for apartment complexes and generally for 1 to 15 years for commercial property. At this point we do not anticipate that the current economic slowdown will have a significant adverse affect on our financial performance over the coming 12 months.

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### Results from Stabilized Properties

IRET defines fully stabilized properties as those both owned at the beginning of the prior fiscal year and having completed the rent-up phase (90% occupancy). "Same store" results for Fiscal 2001 and 2000 for residential and commercial were:

<u>Same Store Residential</u>	<u>Fiscal 2001</u>	<u>Fiscal 2000</u>	<u>% Change</u>
Scheduled Rent	\$ <u>38,228,938</u>	\$ <u>37,471,897</u>	<u>2.0%</u>
Total Receipts	\$ <u>37,957,512</u>	\$ <u>36,615,535</u>	<u>3.7%</u>
Utilities & Maintenance	\$ 8,020,633	\$ 6,757,467	18.7%
Management YTD	\$ 3,770,137	\$ 3,615,178	4.3%
Taxes & Insurance	\$ 4,104,636	\$ 4,021,124	2.1%
Mortgage Interest	\$ <u>9,250,331</u>	\$ <u>10,259,450</u>	<u>-10.9%</u>
Total Expenses	\$ <u>25,145,737</u>	\$ <u>24,653,219</u>	<u>2.0%</u>
Net Operating Income	\$ 12,811,775	\$ 11,962,316	7.1%

<u>Same Store Commercial</u>	<u>Fiscal 2001</u>	<u>Fiscal 2000</u>	<u>% Change</u>
Scheduled Rent	\$ <u>6,439,820</u>	\$ <u>6,298,261</u>	<u>2.2%</u>
Total Receipts	\$ <u>6,318,864</u>	\$ <u>6,146,533</u>	<u>2.8%</u>
Utilities & Maintenance	\$ 336,672	\$ 285,478	17.9%
Management YTD	\$ 73,638	\$ 58,356	26.2%
Taxes & Insurance	\$ 210,145	\$ 200,784	7.7%
Mortgage Interest	\$ <u>2,799,274</u>	\$ <u>2,831,082</u>	<u>-11.2%</u>
Total Expenses	\$ <u>3,419,729</u>	\$ <u>3,375,700</u>	<u>1.3%</u>
Net Operating Income	\$ 2,899,135	\$ 2,770,833	4.6%

### Funds From Operations

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

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

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

Funds from operations for the operating partnership increased to \$22,440,463 for Fiscal 2001, compared to \$18,327,986 for Fiscal 2000 and \$12,368,550 for Fiscal 1999.

Calculations of funds from operations for the operating partnership are as follows:

<u>Item</u>	<u>Fiscal 2001</u>	<u>Fiscal 2000</u>	<u>Fiscal 1999</u>
Net Income Available to IRET Shareholders and Unit Holders from operations and capital gains	\$ 10,789,417	\$ 11,622,370	\$ 8,348,860
Less gain from property sales	\$ <u>-601,605</u>	\$ <u>-1,754,496</u>	\$ <u>-1,947,184</u>
Operating income	\$ <u>10,187,812</u>	\$ <u>9,867,874</u>	\$ <u>6,401,676</u>
Plus real estate depreciation and amortization (1)	\$ <u>12,252,651</u>	\$ <u>8,460,112</u>	\$ <u>5,966,874</u>
Funds from operations	\$ <u>22,440,463</u>	\$ <u>18,327,986</u>	\$ <u>12,368,550</u>

Weighted average shares and units outstanding - basic and diluted (2)	\$ <u>28,577,700</u>	\$ <u>24,476,984</u>	\$ <u>19,104,465</u>
Distributions paid to Shareholders/Unit holders (3)	\$ <u>15,732,399</u>	\$ <u>12,492,067</u>	\$ <u>8,984,996</u>

(1) Depreciation on office equipment and other assets used by the Company are excluded. Amortization of financing and other expenses are excluded, except for amortization of leasing commissions, which are included.

(2) Limited Partnership Units of the Operating Partnership are exchangeable for Shares of Beneficial Interest of IRET only on a one-for-one basis.

(3) Distributions made equally on shares and units.

### Self-Advised Status

On July 1, 2000, IRET Properties became self-advised. Prior to that date, Odell-Wentz and Associates, L.L.C., pursuant to an advisory contract with IRET, provided all office space, personnel, office equipment, and other equipment and services necessary to conduct all of the day-to-day operations of IRET. Odell-Wentz and its predecessor firms had acted as advisor to the Trust since its inception in 1970. IRET obtained an independent appraisal of the value of the advisory business and assets from certified public accounts not otherwise employed by either IRET or the advisory company.

The purchase price for the business and assets was \$2,083,350 allocated as follows:

Real Estate	\$ 475,000
Furniture, Fixtures & Vehicles	\$ 193,350
Good Will	\$ 1,645,000
Less Real Estate Mortgages Assumed	\$ <u>-230,000</u>
	\$ 2,083,350

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IRET Properties issued 255,000 of its limited partnership units in exchange for the above-described assets. Except for Roger R. Odell, who retired on July 1, 2000, all officers and employees of Odell-Wentz and Associates, L.L.C. were retained by IRET Properties.

### Property Acquisitions

The Operating Partnership added \$143,042,292 of real estate investments to its portfolio during Fiscal 2001, compared to \$155,284,745 added in Fiscal 2000 and \$62,455,508 in Fiscal 1999. The Fiscal 2001 and 2000 additions are detailed below:

#### Fiscal 2001 Property Acquisitions for the Period May 1, 2000 to April 30, 2001

<u>Commercial</u>	<u>Location</u>	<u>Property Type</u>	Net Rentable <u>Purchase</u> <u>Sq. Ft.Price</u>
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12 South Main	Minot, ND	Office	11,300\$	385,000
17 South Main	Minot, ND	Office/Apartments	6,500\$	90,000
2030 Cliff Road	Eagan, MN	Office	13,374\$	950,000
Burnsville Bluffs	Burnsville, MN	Office	26,186\$	2,400,000
Cold Springs Center	St. Cloud, MN	Office	77,533\$	8,250,000
Conseco Financial Building	Rapid City, SD	Office	75,815\$	6,850,000
Dewey Hill Business Center	Edina, MN	Office	73,338\$	4,472,895
Edgewood Vista Addition	Duluth, MN	Assisted Living	26,412\$	2,200,000
Edgewood Vista Addition	East Grand Forks, MN	Assisted Living	5,100\$	516,700
Edgewood Vista	Fremont, NE	Assisted Living	5,100\$	535,550
Edgewood Vista	Hastings, NE	Assisted Living	5,100\$	550,800
Edgewood Vista	Kalispell, MT	Assisted Living	5,895\$	560,000
Edgewood Vista	Omaha, NE	Assisted Living	5,100\$	610,800
	Woodbury &			
HealthEast I & II	Maplewood, MN	Medical Office	114,216\$	21,588,498
Hospitality Associates	Minnetonka, MN	Office	4,000\$	400,000
Nicollet VII	Burnsville, MN	Office	118,400\$	7,200,000
Pillsbury Business Center	Bloomington, MN	Office	42,220\$	1,800,000
Plymouth IV & V	Plymouth, MN	Office	126,809\$	13,750,000
Sternier Lighting	Winsted, MN	Manufacturing	38,000\$	1,000,000
Stone Container Addition	Fargo, ND	Manufacturing	41,500\$	2,001,879
Stone Container	Waconia, MN	Warehouse	29,440\$	1,666,500
Southdale Medical Center (60.31% part int.)	Edina, MN	Medical Office	<u>195,983\$</u>	<u>32,421,070</u>
			1,047,321\$	110,199,692

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<u>Residential</u>		<u>Units</u>	<u>Purchase Price</u>
Cottonwood Phase III	Bismarck, ND***	67	\$ 1,854,800
Meadows, Phase III	Jamestown, ND***	27	\$ 1,865,182
Olympic Village	Billings, MT	274	\$ 11,616,500
Prairiewood Meadows	Fargo, ND	85	\$ 2,811,000
Ridge Oaks	Sioux City, IA	132	\$ 4,195,036
Sunset Trail, Phase I	Rochester, MN	73	\$ 6,493,150
Sunset Trail, Phase II	Rochester, MN**	<u>n/a</u>	<u>\$ 4,006,932</u>
		658	<u>\$ 32,842,600</u>
Total			\$ 43,042,292

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\*\* Property not placed in service at April 30, 2001. Additional costs are still to be incurred.

\*\*\* Represents costs to complete a project started in year ending April 30, 2000.

**Fiscal 2000 Property Acquisitions for the Period of May 1, 1999 to April 30, 2000**

<u>Commercial</u>	<u>Location</u>	<u>Property Type</u>	<u>Net Rentable</u>	
			<u>Sq. Ft.</u>	<u>Purchase Price</u>
Maplewood Square	Rochester, MN	Retail	118,397	\$ 11,800,000
Great Plains	Fargo, ND	Software Mfg.	121,600	\$ 15,000,000
Edgewood Vista	Grand Island, NE	Assisted Living	5,100	\$ 446,000
Edgewood Vista	Columbus, NE	Assisted Living	5,100	\$ 446,000
Edgewood Vista	Belgrade, MT	Assisted Living	5,100	\$ 446,000
Corner C-Store	East Grand Forks, MN	Convenience Store	14,490	\$ 1,385,000
Flying Cloud Drive	Eden Prairie, MN	Office Building	61,217	\$ 4,900,000
Lexington Commerce Ctr.	Eagan, MN	Office Warehouse	89,440	\$ 4,800,000
Northgate II	Maple Grove, MN	Office Warehouse	25,999	\$ 2,300,000
Southeast Tech Ctr.	Eagan, MN	Office Warehouse	58,300	\$ 6,050,000
MedPark Mall	Grand Forks, ND	Retail	45,328	\$ 5,300,000
Edgewood Vista	Hermantown, MN	Assisted Living	<u>57,187</u>	<u>\$ 4,800,000</u>
			607,258	\$ 57,673,000

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<u>Residential</u>		<u>Units</u>	<u>Purchase Price</u>
Rimrock West	Billings, MT	78	\$ 3,750,000
Valley Park Manor	Grand Forks, ND	168	\$ 4,400,000
The Meadows I***	Jamestown, ND	27	\$ 247,700
Thomasbrook	Lincoln, NE	264	\$ 9,188,470
Pebble Creek	Bismarck, ND	18	\$ 720,000
Country Meadows II***	Billings, MT	67	\$ 3,010,325
Crown Colony	Topeka, KS	220	\$ 10,500,000
Sherwood	Topeka, KS	300	\$ 15,750,000
Sunset Trail**	Rochester, MN	n/a	\$ 1,500,000
Legacy IV	Grand Forks, ND	67	\$ 4,301,250
Dakota Hill	Irving, TX	504	\$ 36,500,000
The Meadows II	Jamestown, ND	27	\$ 1,845,000
Lancaster Place	St. Cloud, MN	84	\$ 3,200,000
The Meadows III**	Jamestown, ND	n/a	\$ 68,000
Cottonwood Lake III**	Bismarck, ND	<u>n/a</u>	<u>\$ 2,631,000</u>
<b>Total</b>		1,824	<u>\$ 97,611,745</u>
			\$ <u>155,284,745</u>

\*\* Property not placed in service at April 30, 2000. Additional costs are still to be incurred.

\*\*\* Represents costs to complete a project started in year ending April 30, 1999.

### Property Dispositions

Real Estate assets sold by the Operating Partnership during Fiscal 2001 and 2000 were as follows:

<u>Property Sold</u>	<u>Sales Price</u>	<u>Book Value &amp; Sales Costs</u>	<u>Gain</u>
Fiscal 2001			
Evergreen Shopping Center, Evergreen, CO	\$ 1,450,000	\$ 1,448,310	\$ 1,689
Chalet Apartments, Minot, ND	\$ 390,000	\$ 366,566	\$ 23,434
Hill Park aka Garden Grove, Bismarck, ND	\$ 2,400,000	\$ 1,823,518	\$ <u>576,482</u>
Total Fiscal 2001 Gain			\$ 601,605

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<u>Property Sold</u>	<u>Sales Price</u>	<u>Book Value &amp; Sales Costs</u>	<u>Gain</u>
Fiscal 2000			
Superpumper - Grand Forks, ND	\$ 485,000	\$ 398,521	\$ 86,479
Superpumper - Crookston, MN	\$ 428,000	\$ 338,097	\$ 89,903
Superpumper - Langdon, ND	\$ 239,000	\$ 174,648	\$ 64,352
Superpumper - Sydney, MT	\$ 120,000	\$ 102,839	\$ 17,161
Mandan Apartments, Mandan, ND	\$ 325,000	\$ 249,388	\$ 75,612
Sweetwater Apartments, Devils Lake, ND	\$ 480,000	\$ 144,697	\$ 335,303
Hutchinson Technology - Hutchinson, MN	\$ 5,200,000	\$ 4,090,997	\$ 1,109,003
Jenner 18-Plex - Devils Lake, ND	\$ 340,000	\$ 354,009	\$ -14,009
Virginia Apartments, Minot, ND	\$ 165,000	\$ 175,308	\$ <u>-10,308</u>
Installment Sales			\$ <u>1,000</u>
Total Fiscal 2000 Gain			\$ 1,754,496

### Distributions

The following distributions were paid during Fiscal Years 2001, 2000 and 1999:

<u>Date</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>
July 1,	\$ .1325	\$ .1240	\$ .1100



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October 1,	\$ .1350	\$ .1260	\$ .1150
January 15,	\$ .1400	\$ .1280	\$ .1200
April 1, 2000	\$ <u>.1425</u>	\$ <u>.1300</u>	\$ <u>.1225</u>
	\$ .5500	\$ .5080	\$ .4675

The Fiscal 2001 distributions increased 8.3% over those paid during fiscal year 2000 and 17.6% over Fiscal 1999.

**Liquidity and Capital Resources**

Important equity capital and financing events in Fiscal 2001 were:

- \* As a result of the sale of additional Shares of Beneficial Interest, shareholder equity increased by \$9,024,569 and, in addition, the equity capital of the Operating Partnership was increased by \$23,885,524 as a result of contributions of real estate in exchange for Operating Units, resulting in a total increase in equity capital for the Operating Partnership of \$32,910,093.
- \* Mortgage loan indebtedness increased substantially due to the acquisition of new investment properties to \$368,956,930 on 04/30/01 from \$265,056,767 on 04/30/00, and \$175,071,069 on 04/30/99. The weighted interest rate on these loans decreased to 7.56% per annum from 7.59% on 04/30/00 compared to 7.12% at the end of Fiscal 1999.
- \* Of new real estate investments, \$143,042,292 was made by the Operating Partnership, compared to \$155,284,745 in Fiscal 2000 and \$62,455,508 in Fiscal 1999.

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- \* Net cash provided from operating activities increased to \$22,328,745 from \$16,277,085 due to the addition of new investments to our real estate portfolio.
- \* Net cash used in investing activities declined to \$76,165,151 from the \$120,041,064 used in Fiscal 2000. This decrease resulted from the lesser amount of cash used to acquire new investment properties.
- \* Net cash provided from financing activities also declined to \$56,743,205 from the year earlier figure of \$103,500,190, again due to the lower activity in acquiring new properties for cash and borrowed funds.

IRET expects that its short-term liquidity requirements will be met through the net cash provided by its operations and also expects that it will meet its long-term liquidity requirements including scheduled debt maturities, construction and development activities, and property acquisitions through long-term secured borrowings and the issuance of additional equity securities by the Operating Partnership, including Shares of Beneficial Interest of the company as well as limited partnership units of the Operating Partnership to be issued in connection with acquisitions of improved real estate properties. IRET believes that its net cash provided by operations will continue to be adequate to meet both operating requirements and the payment of dividends in accordance with REIT requirements in both the short and long term. Budgeted expenditures for ongoing maintenance and capital improvements and renovations to its real estate portfolio are expected to be funded from cash flow generated from operations of these properties.

Of the \$368,956,930 of mortgage indebtedness on April 30, 2001, \$31,592,149 were variable rate mortgages on which the future interest rate will vary based on changes in the interest rate index for each such loan and the balance of fixed rate mortgages was \$337,364,781. The principal payments due on all of the mortgage indebtedness are as follows:

<u>Year Ending April 30</u>	<u>Mortgage Principal</u>
2002	\$ 14,474,108
2003	\$ 8,298,146
2004	\$ 8,940,912
2005	\$ 9,746,970
2006	\$ 13,133,365
Later Years	\$ <u>314,363,429</u>
Total Payments	\$ 368,956,930

As of April 30, 2001, IRET is committed to provide construction financing for an assisted living and Alzheimer care facility in Virginia, Minnesota for \$7,000,000.

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The following is a summary of IRET's equity capital and liability conditions at the end of Fiscal 2001 as compared to prior periods:

- \* IRET's shareholder equity increased to \$118,945,160 from \$109,920,591 on April 30, 2000, and from \$85,783,297 on April 30, 1999. These increases resulted from the sale of Shares of Beneficial Interest and the reinvestment of dividends in new shares.
- \* Liabilities of the Operating Partnership increased to \$389,086,105 from \$287,940,038 on April 30, 2000, and \$191,229,475 as of April 30, 1999. These increases resulted from increased mortgage loans to finance the acquisition of real estate properties.
- \* Total assets of the Operating Partnership increased to \$570,322,124 from \$432,978,299 on April 30, 2000, and \$291,493,311 as of April 30, 1999, again, as a result of investments in additional real estate properties.
- \* Cash and marketable securities were \$9,368,176, compared to \$6,623,495 on April 30, 2000, and \$7,412,236 on April 30, 1999.
- \* In addition to its cash and marketable securities, IRET Properties has unsecured line of credit agreements with First International Bank & Trust, Bremer Bank, and First Western Bank & Trust, all of Minot, North Dakota, totaling \$17,500,000, none of which were in use on April 30, 2001. On April 30, 2000, \$6,452,420 was in use. Credit lines in Fiscal 1999 totaling \$11,500,000 were not in use at the end of 1999.

#### **Impact of Inflation**

In Fiscal 2001, IRET experienced a 17% increase in the cost of utilities primarily due to natural gas price increases in its same store apartment communities. Same store communities represent communities that had twelve consecutive months of operations in both Fiscal 2000 and 2001. Of the \$1,060,282 total increase in same store utility and maintenance expense in Fiscal 2001 over the prior year, \$731,595 or 69% of the increase was due to natural gas prices and \$328,687 or 31% snow removal expense. Since that time, natural gas prices have retreated, but it is possible that IRET's apartment communities will again experience a sharp increase in utility expenses that may not be recoverable in the form of increased rent. Maintenance and other rental expenses also to increased at rate of 2-3%. IRET has been able to increase rental income sufficient to cover the normal inflationary increases in rental expenses.

#### **Anticipated Increase in Insurance Expense**

IRET's blanket casualty and liability insurance policy, which covers all of its residential properties and most of its commercial properties, will expire April 30, 2002. Because of the September 11, 2001, terrorist attacks, IRET expects a substantial increase in its insurance premiums beginning with fiscal year 2003, which commences May 1, 2002, but is not able to quantify the amount of the expected increase at this time.

With respect to IRET's commercial properties, the tenant is responsible to pay utilities, insurance, and most other rental expenses. However, commercial leases tend to be of a longer term and IRET is precluded from increasing rent to compensate for inflationary changes in currency values. In the case of residential properties, no leases are longer than one year and the majority are for six months or less and thus IRET may raise rent to cover inflationary changes in expenses and the value of its capital investment, subject to market conditions.

### Quantitative & Qualitative Disclosures about Market Risk

IRET's exposure to market risk is limited to fluctuations in the general level of interest rates on its current and future fixed and variable rate debt obligations. Even though IRET's philosophy is to maintain a fairly low exposure to interest rate fluctuation risk, IRET is still vulnerable to significant fluctuations in interest rates on its variable rate debt, on any future repricing or refinancing of its fixed rate debt and on future debt.

IRET primarily uses long-term and medium-term (more than 10 years) and medium-term debt as a source of capital. IRET does not currently use derivative securities, or interest rate swaps or any other type of hedging activity to manage its costs of capital. As of April 30, 2001, IRET had the following amount of future principal payments on mortgages secured by its real estate:

Long Term Debt	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>Thereafter</u>	<u>Total</u>
Fixed Rate	\$13,209,699	\$6,949,388	\$7,482,220	\$8,183,905	\$10,998,715	\$291,141,854	\$337,364,781
Variable Rate	\$ 1,265,409	\$1,348,758	\$1,458,692	\$1,563,065	\$ 2,734,650	\$ 23,221,575	\$ 31,592,149
							\$368,956,930
Average Interest Rate (%)	(1)	(1)	(1)	(1)	(1)	(1)	

(1) The weighted average interest rate as of April 30, 2001, was 7.56%. Any fluctuations on the variable interest rates could increase or decrease IRET's interest expenses. For example, an increase of 1% per annum on IRET's \$31,592,149 of variable rate indebtedness would increase its annual interest expense by \$315,921.

## General Information As To Investors Real Estate Trust

### Organization of IRET

Investors Real Estate Trust is a registered real estate investment trust organized and governed under the laws of North Dakota. IRET has qualified as a real estate investment trust under Sections 856-858 of the Internal Revenue Code during all years of its existence.

### Governing Instruments of IRET

IRET was organized on July 31, 1970. IRET will continue, unless sooner terminated by a majority vote of the shareholders, until the expiration of 20 years after the death of the last survivor of the seven original trustees. All of the original Trustees are still living, the youngest being 65 years of age. The existence of IRET may be extended indefinitely by action of the

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Trustees approved by the vote of shareholders holding fifty per cent or more of the outstanding shares. IRET has nine Trustees.

### Independent Trustees

IRET adheres to NASAA guidelines requiring a majority of the board to be composed of independent Trustees. Pursuant to NASAA guidelines, IRET considers the following Trustees as independent:

C. Morris Anderson	John F. Decker	Daniel L. Feist	Steven B. Hoyt
Patrick G. Jones	Jeffrey L. Miller	Stephen L. Stenehjem	

### Non-Independent Trustees

IRET considers the following trustees as non-independent:

Timothy P. Mihalick	Thomas A. Wentz, Jr.
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### Shareholder Meetings

The governing provisions of IRET require the holding of annual meetings. It is the policy of the Board of Trustees to hold the annual meeting in Minot, North Dakota, during the month of September. All shareholders shall be given at least 30 days prior written notice.

Special meetings of the shareholders may be called by the chief executive officer, by a majority of the trustees or by a majority of the independent trustees, and shall be called by an officer of IRET upon written request of the shareholders holding in the aggregate of not less than 10% of the outstanding shares of IRET entitled to vote at such meeting.

Upon receipt of a written request, either in person or by mail, stating the purpose or purposes of the meeting, IRET shall provide all shareholders within ten days after receipt of said request, written notice, either in person or by mail, of a meeting and the purpose of such meeting to be held on a date not less than fifteen nor more than sixty days after the distribution of such notice, at a time and place specified in the request, or if none is specified, at a time and place convenient to shareholders. The holders of a majority of shares in IRET, present in person or by proxy, shall constitute a quorum at any meeting.

### **Structure of IRET**

IRET carries on its activities directly and through subsidiaries and an operating partnership. IRET Properties, a North Dakota Limited Partnership, was organized on January 31, 1997, and, since February 1, 1997, is the principle entity through which IRET operates. All assets (except for qualified REIT subsidiaries) and liabilities of IRET have been contributed to the operating partnership in exchange for a general partnership interest in the operating partnership. IRET, INC., a North Dakota corporation, and a wholly owned subsidiary of IRET acts as the general partner of the operating partnership. As the sole shareholder of IRET, INC., which in turn is the sole general partner of the operating partnership, IRET has the exclusive power under the Operating Partnership Agreement to manage and conduct the business of the operating partnership, subject to certain limitations contained in the Operating Partnership Agreement. See "Operating Partnership Agreement."

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IRET's interest in the operating partnership will entitle it to receive all quarterly or yearly cash distributions from the operating partnership and to be allocated its pro-rata share of the profits and losses of the operating partnership. IRET owned approximately 76% of the operating partnership as of April 30, 2001. It is expected that the operating partnership will merge with other partnerships or acquire real estate from other persons in exchange for limited partnership units. When certain properties were acquired by IRET, the lender financing the properties required, as a condition of the loan, that the properties be owned by a "single asset entity." Accordingly, IRET has organized two wholly owned subsidiary corporations and IRET Properties has organized several limited partnerships for the purpose of holding title to these investment properties in order to comply with the conditions of the lender. All financial statements of these subsidiaries are consolidated into the financial statements of IRET.

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## **Policy With Respect To Certain Activities**

The following information is a statement of IRET's current policy as it pertains to the described activities.

### **To Issue Senior Securities**

IRET has issued and outstanding investment certificates which are senior to the shares of beneficial interest being offered under this prospectus. The investment certificates are issued for a definite term and annual interest rate. In the event of dissolution of IRET, the investment certificates would be paid in preference to the shares of beneficial interest. Please see page 8 concerning the risks associated with the preference of the senior securities.

The Trust does not plan to issue other senior securities in the future. However, the organizational documents of IRET do not restrict IRET from issuing additional senior securities with liquidation preferences superior to the shares purchased under this offering. The decision on whether to issue additional senior securities may be made by the trustees at anytime without notice to or a vote of the shareholders. As of April 30, over the past three years IRET had outstanding the following senior securities:

### Senior Securities Outstanding as of April 30

Due in Years Ending April 30	<u>Fiscal 2001</u>	<u>Fiscal 2000</u>	<u>Fiscal 1999</u>
6 month notes	\$ 800,206	\$ 2,762,960	\$ 842,174
1 year notes	\$ 4,805,206	\$ 330,000	\$ 2,446,566
3 year notes	\$ 2,369,328	\$ 1,574,669	\$ 1,651,865
5 year notes	\$ <u>3,899,807</u>	\$ <u>5,419,627</u>	\$ <u>6,829,531</u>
Totals	\$ 11,874,416	\$ 10,087,256	\$ 11,770,136
Rate of interest paid on investment certificates as of April 30			
6 month notes	6.50%	6.50%	6.00%
1 year notes	7.00%	7.00%	6.50%
3 year notes	7.50%	7.50%	7.00%
5 year notes	8.00%	8.00%	7.50%

### To Borrow Money

IRET plans to continue to borrow money on all new real estate acquired or developed. IRET's policy is to seek to borrow up to 70% of the cost a property. IRET relies on borrowed funds in pursuing its investment objectives and goals. The policy concerning borrowed funds is vested solely with the board of trustees, subject to the limitation in IRET's organizational documents that unless justified and approved by a majority of the trustees, IRET may not borrow more than 300% of the value of its total portfolio of assets. The organizational documents of IRET do not impose any limitation on the amount of money IRET may borrow against any one particular property.

The decision to borrow up to 70% of the acquisition or development cost of individual properties or to borrow up to or more than 300% of the net value of IRET's assets may be changed by a majority of the trustees without notice to or a vote of the shareholders.

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IRET intends to continue borrowing funds in the future. Over the past three fiscal years, IRET has borrowed funds on new property acquisitions and developments as follows:

	<u>Fiscal 2001</u>	<u>Fiscal 2000</u>	<u>Fiscal 1999</u>
Cost of Property Acquired or developed	\$ 143,042,292	\$ 154,094,051	\$ 62,455,508
Net Increase in borrowings	\$ 103,900,163	\$ 89,985,698	\$ 41,011,095
Borrowing as a percentage of cost	73%	58%	66%

**To Loan Money**

As part of IRET's business plan, trust funds have been loaned to third parties. The loans are in the form of mortgages secured by real estate. The decision to make loans is vested solely with the trustees and may be changed by a majority of the trustees without notice to or a vote of the shareholders.

**Mortgage Loans Receivable**

<u>Location</u>	<u>Real Estate Security</u>					<u>Interest</u>	
		<u>10/31/01</u>	<u>4/30/01</u>	<u>4/30/00</u>	<u>4/30/99</u>	<u>Rate</u>	<u>Priority</u>
Higley Heights - Phoenix, AZ	Orange Grove	\$ 0	\$ 0	\$ 598,843	\$ 742,811	8.00%	First
Great Plains Software - Fargo, ND	Campus/Office Facility	\$ 0	\$ 0	\$ 0	\$ 9,185,758	9.50%	First
Hausmann Rentals - Moorhead, MN	Apartment Building	\$ 273,934	\$ 278,527	\$ 287,115	\$ 294,968	9.00%	First
1516 N. Street - Bismarck, ND	Apartment Building	\$ 0	\$ 0	\$ 0	\$ 159,965	10.25%	First
Scottsbluff Estates - Scottsbluff, NE	Apartment Building	\$ 106,514	\$ 106,926	\$ 108,752	\$ 110,437	8.00%	Second
Fairfield Apts - Hutchinson, MN	Apartment Building	\$ 42,692	\$ 43,313	\$ 45,930	\$ 46,500	8.75%	First
1921 7th Street NW - Minot, ND	Rental House	\$ 0	\$ 954	\$ 2,269	\$ 3,282	7.00%	First
Inwards Building - Detroit Lakes, MN	Apartment Building	\$ 0	\$ 0	\$ 0	\$ 117,493	9.00%	First
Edgewood Vista - Norfolk, MN	Alzheimer Facility	\$ 477,375	\$ 477,375	\$ 477,375	\$ 0	11.00%	First
Edgewood Vista - Virginia, MN	Alzheimer Facility	\$ 1,712,382	\$ 0	\$ 0	\$ 0	10.00%	First
Mankato Heights Plaza - Mankota, MN	Strip Mall	\$ 3,200,000	\$ 0	\$ 0	\$ 0	10.00%	First
Other Mortgages		\$ <u>130,000</u>	\$ <u>130,000</u>	\$ <u>130,000</u>	\$ <u>60,000</u>	8.00%	
Total		\$ <u>5,942,897</u>	\$ <u>1,037,095</u>	\$ <u>1,650,284</u>	\$ <u>10,721,213</u>		
Less:							
Unearned Discounts		\$ 0	\$ 0	\$ -392	\$ -1,898		
Deferred gain from property dispositions		\$ 0	\$ 0	\$ 0	\$ -1,000		
Allowance for Losses		\$ <u>0</u>	\$ <u>0</u>	\$ <u>120,314</u>	\$ <u>-120,314</u>		
		\$ 5,942,897	\$ 1,037,095	\$ 1,529,578	\$ 10,598,001		

As of October 31, 2001, all of our mortgage loans were current and none of the loans were in default.

**To Invest in the Securities of Other Companies for Purposes of Exercising Control**

Other than the formation of wholly owned subsidiaries to hold individual properties, IRET has not during the past three years invested in the securities of other issuers for the purpose of exercising control over such issuer and has no plans to do so. Over the past three years, IRET has created a number of subsidiary companies for the sole purpose of holding individual real estate properties. A list of those subsidiary companies is listed on page F-20 of the financial statements at the end of this prospectus.

Even though IRET has not done so in the past, the organizational documents of IRET do not impose any limitations on IRET's ability to invest in the securities of other companies for the purpose of exercising control. Any decision to do so is vested solely in the trustees and may be changed without notice to or a vote of the shareholders.

#### **To Underwrite Securities of Other Issuers**

Over the past three years, IRET has not engaged in the underwriting of securities of other issuers. Even though IRET has not done so in the past, the organizational documents of IRET do not impose any limitation on IRET's ability to underwrite the securities of other issuers. Any decision to do so is vested solely in the trustees and may be changed without notice to or a vote of the shareholders.

#### **To Engage in the Purchase and Sale or Turnover of Investments**

IRET has no plans to engage in the purchase and sale or turnover of investments. IRET's current policy is to acquire or develop real estate that will be held for a period of at least 10 years. Even though IRET has not engage in the practice of purchasing and then selling the property shortly thereafter in hopes of making a profit at any time over the past three years, the organizational documents of IRET do not impose any limitation on IRET's ability to do so. Any decision to do so is vested solely in the trustees and may be changed without notice to or a vote of the shareholders.

#### **To Offer Securities in Exchange for Property**

Commencing on February 1, 1997, IRET operates principally through IRET Properties, a North Dakota Limited Partnership, of which IRET is the sole general partner. Such a structure allows IRET to offer limited partnership units in exchange for real estate. IRET currently has plans to offer limited partnership units in exchange for real estate on a continuous and ongoing basis. The limited partnership units are convertible on a one to one basis into shares of IRET after at least a two-year holding period. All limited partnership units receive the same dividend as paid on shares of IRET. Limited partners are not entitled to vote on any matters affecting the company until they convert their units to shares. For a complete description of the limited partnership units, please see page 70. All exchanges shall be subject to approval by the trustees on such terms and conditions that are deemed reasonable by the trustees.

The organizational documents of IRET do not contain any restrictions of IRET's ability to offer its securities in exchange for property. As a result, any decision to do so is vested solely in the trustees. This policy may be changed at anytime without notice to or a vote of shareholders. Over the past three fiscal years ending April 30, IRET has issued the following limited partnership units in exchange for property:

	<u>2001</u>	<u>2000</u>	<u>1999</u>
Limited partnership units issued	2,968,030	2,709,253	858,843
Dollar value	\$ 25,344,059	\$ 21,602,838	\$ 6,485,927

#### **To Purchase or Otherwise Re-Acquire Its Shares or Other Securities**

As a "real estate investment trust" under federal income tax laws, IRET intends to invest only in real estate assets. The organizational documents of IRET do not prohibit IRET from acquiring or otherwise repurchasing its own



securities so long as such activity does not prohibit IRET from operating as a real estate investment trust under the IRS code. Any decision to purchase or otherwise reacquire its share or other securities is vested solely in the trustees and may be changed without notice to or a vote of the shareholders.

Over the past three years, IRET has repurchased its shares under the terms of its dividend reinvestment plan for allocation to those existing shareholders who elect to reinvest their dividends into additional shares of IRET. Over the past three years IRET has repurchased the following number and amount of shares:

For the period ending 4/30	<u>2001</u>	<u>2000</u>	<u>1999</u>
Number of shares	555,785	372,500	148,000
Total price paid by IRET	\$ 4,478,401	\$ 2,970,675	\$ 1,174,675
Average price per share	\$ 8.057	\$ 7.97	\$ 7.936

### **To Make Annual and Other Reports Available to Shareholders**

The organizational documents of IRET require that an annual report be provided to shareholders at least once a year. The report must be provided no later than 120 days from the end of IRET's most recent fiscal year ending April 30. The annual reports are generally mailed during the second week of August. The annual report contains a financial statement certified by an independent public accountant. The requirement to provide an annual report to shareholders may only be changed by a vote of a majority of the shareholders.

IRET also has a policy of providing quarterly reports to the shareholders during January, April, July, and October. The quarterly reports do not contain financial statements certified by an independent public accountant. The provision of a quarterly report to the shareholders is not required by IRET's organizational documents and may be changed by a majority of the trustees at any time without notice to or a vote of the shareholders.

## **Investment Policies of IRET**

### **Investments in Real Estate or Interests in Real Estate**

We currently own real estate located in 13 states. Our current portfolio is allocated among the various states and between apartments and commercial property.

We may invest in real estate or interests in real estate which are located anywhere in the United States, but plans to focus on those states where we already have property with a concentration on Minnesota, Montana, North Dakota and South Dakota. Please see pages 55 through 67 for a breakdown of our real estate ownership by state and between apartments and commercial.

We may invest in any type of real estate or interest in real estate including, but not limited to, office buildings, apartment buildings, shopping centers, industrial and commercial properties, special purpose buildings and undeveloped acreage, except we may not invest more than 10% of net assets in unimproved real estate, excluding

property being developed or property where development will be completed within a reasonable period.

The method of operating our real estate shall be delegated to a management company as it pertains to the day-to-day management. All major operating decisions concerning our operation of our real estate shall be made by the trustees.

The method of financing the purchase of real estate investments shall be primarily from borrowed funds and the sale of shares. The income generated from rental income and interest income is planned to be distributed to shareholders as dividends.

There is no limitation on the number or amount of mortgages which may be placed on any one piece of property provided that in the event we seek to borrow an amount which is more than 300% or 3 times our total net assets, our governing instrument requires that it must be approved by a majority of the independent trustees and disclosed to the shareholders in the next quarterly report. In addition to the 300% limitation on total indebtedness, we have a policy that may be changed at anytime without shareholder approval of not exceeding a 70% debt level on our real estate assets. As of October 31, 2001, our ratio of total real estate mortgages to total real estate assets was 62.9% while our ratio of total indebtedness as compared to our net assets was 220%.

It is not our policy to acquire assets primarily for capital gain through sale in the short term. Rather, it is our policy to acquire assets with an intention to hold that asset for at least a 10-year period. During the holding period it is our policy to seek current income and capital appreciation through an increase in our stock price as a result of the increase in value of the underlying real estate portfolio as well as increased revenue as a result of higher rents.

Any policy as it relates to investments in real estate or interests in real estate may be changed by the trustees at anytime without notice to or a vote of the shareholders.

### **Investments in Real Estate Mortgages**

While not IRET's primary business focus, IRET does make loans to others that are secured by mortgages, liens, or deeds of trust covering real estate. Over the last three years IRET has made a number of mortgage loans, most of which are still outstanding. IRET has no restrictions on what type of property may be used as collateral for a mortgage loan, provided that except for loans insured or guaranteed by a government or a governmental agency, IRET may not invest in or make a mortgage loan unless an appraisal is obtained concerning the underlying property.

It is IRET's policy not to invest in mortgage loans on any one property if in the aggregate the total indebtedness on the property including IRET's mortgage exceeds 85% of the property's value unless approved by the board of trustees. As of October 31, 2001, all outstanding loans met the 85% criteria.

IRET can invest in second mortgages without the approval of or notice to the shareholders. As of October 31, 2001, IRET only had one second mortgage with a principal balance of \$106,514. IRET does not plan to invest in any other second mortgages, but this policy may be changed at anytime by the trustees without the approval of or notice to the shareholders.

For a complete description of IRET's mortgage loan activity, please see page 8 "Mortgage Loan Receivable." IRET's policy as it relates to mortgage loans may be changed by the trustees at anytime without notice to or a vote of the shareholders.

### Investments in the Securities of or Interests in Persons Primarily Engaged in Real Estate Activities and Other Securities

IRET is permitted to invest in the securities of other entities engaged in the ownership and operation of real estate. Over the past three years IRET has purchased United States guaranteed obligations and common shares of five other publicly traded real estate investment trusts. These purchases are made solely for the purpose of holding cash until future real estate investments are identified. No further investments in other types of securities are planned.

IRET has organized a number of wholly owned subsidiary limited partnerships and other wholly owned subsidiary companies for the sole purpose of conducting its real estate business activities. For a list of these subsidiary entities please see page F-23 and F-24 of the financial statements at the end of this prospectus or page 16.

While permitted to do so under its organizational documents, IRET has not invested in any other affiliated real estate investment trusts or entities organized for the purpose of operating as a real estate investment trust.

Any Trust policy as it relates to investments in other securities may be changed by the trustees at anytime without notice to or a vote of the shareholders.

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### Description of Commercial Real Estate

The following commercial properties were owned by IRET as of April 30, 2001. The monthly average rent is calculated by dividing the annualized rent by the total rentable space at the property. Annualized rental income is calculated by dividing the total base rent still to be received by IRET over the remaining term of the lease divided by the number of months of the lease term. This process is called "straight line rent" and is done in accordance with accounting principals generally accepted in the United States. Base rent does not include additional rents received from tenants as reimbursement to IRET of building operating costs including but not limited to management fees, insurance, taxes, utilities, and snow removal.

<u>Unit Name</u>	<u>Property Type</u>	<u>Ownership Interest</u>	<u>Square Feet</u>	<u>Year Acquired</u>	<u>Year of Construction/Remodel</u>	<u>Investment</u>	<u>Occupancy</u>	<u>Annualized Rental Income</u>	<u>Average Rent Per Sq.Foot</u>	<u>Number Units</u>
Georgia										
Lithia Springs Wedgewood	Assisted Living	Fee-100%	29,408	1996	1996	\$ 3,971,878	100.00%	\$ 515,011	\$ 1.46	1
1600 Lee Road										
Georgia Totals			29,408			\$3,971,878	100.00%	\$ 515,011	\$ 1.46	1
Idaho										
Boise										
America's Best 8740 Fairview	Single Tenant	Fee-100%	69,599	1994	1992	\$ 4,788,294	0%	\$ 0	\$ 0.00	1

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Avenue	Retail									
Idaho Totals			69,599			\$4,788,294	0%	\$ 0	\$ 0.00	1
Michigan										
Kentwood										
Comp USA	Single Tenant									
2984 28th St. SE	Retail	Fee-100%	16,000	1996	1995	\$ 2,121,474	100.00%	\$ 200,396	\$ 1.04	1
Michigan Totals			16,000			\$ 2,121,474	100.00%	\$ 200,396	\$ 1.04	1
Minnesota										
Bloomington										
Pillsbury										
Business Ctr	Single Story Office	Fee-100%	42,220	2001	1985	\$1,842,970	n/a	\$ 225,543	\$ 0.45	4

n/a Property held less than 12 months

(1) Investment is the actual cost paid for the property by IRET plus any capital improvements to the real property.

Description of Commercial Real Estate - continued

Unit Name	Property Type	Ownership Interest	Square Feet	Year Acquired	Year of Construction/ Remodel	Investment	Occupancy	Annualized Rental Income	Monthly Avg. Rent Per Sq. Foot	Number Units
Burnsville Burnsville Bluffs 11351 Rupp Dr.	Single Story Office	Fee-100%	26,186	2001	1988	\$2,456,646	n/a	\$ 279,957	\$ 0.89	2
Nicollet VII 12150 Nicollet Avenue	Single Story Office	Fee-100%	118,400	2001	1999	\$7,360,670	n/a	\$ 724,788	\$ 0.51	4
Duluth Edgewood Vista 4195 Westberg Road	Assisted Living	Fee-100%	57,187	2000	2000	\$4,241,450	100.00%	\$ 889,812	\$ 1.30	1
Edgewood Vista II	Assisted Living	Fee-100%	26,412	2001	2001	\$1,439,737	100.00%	\$ 242,004	\$ 0.76	1
Eagan 2030 Cliff Road	Single Story Office	Fee-100%	13,374	2001	1983	\$ 980,866	n/a	\$ 108,329	\$ 0.67	1
Lexington Commerce 3030 Lexington Ave.	Single Story Office	Fee-100%	89,840	2000	1997	\$5,489,723	100.00%	\$ 574,175	\$ 0.53	5
S.E. Tech Center 3020 Denmark Ave.	Single Story Office	Fee-100%	58,300	2000	1998	\$6,115,517	100.00%	\$ 268,064	\$ 0.38	3
East Grand Forks										

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Corner Express 1010 Central Ave. NE	C-Store	Fee-100%	14,490	2000	2000	\$1,392,251	100.00%	\$ 152,352	\$ 0.88	1
Edgewood Vista 608 5th Ave. NW	Assisted Living	Fee-100%	10,778	1997	1997	\$ 899,821	100.00%	\$ 126,972	\$ 0.98	1
Edgewood Vista II	Assisted Living	Fee-100%	5,100	2001	2001	\$ 516,700	100.00%	\$ 59,760	\$ 0.98	1
Eden Prairie Flying Cloud Drive 7901 Flying Cloud Dr.	Multi-Story Office	Fee-100%	61,217	2000	1977	\$5,074,810	99.18%	\$1,018,521	\$ 1.39	22
Lindberg Building 10150 Crosstown Circle	Office/Warehouse	Fee-100%	40,941	1992	1979	\$1,608,535	100.00%	\$ 217,151	\$ 0.44	1
ViroMed 6101 Blue Circle Dr.	Office/Warehouse	Fee-100%	48,700	1999	1994	\$4,863,634	100.00%	\$ 541,070	\$ 0.93	1
Edina Dewey Hill Business Ctr. 5555 West 78th St.	Single Story Office	Fee-100%	73,338	2001	1986	\$4,492,381	100.00%	\$ 468,192	\$ 0.53	8

*n/a Property held less than 12 months*

*(1) Investment is the actual cost paid for the property by IRET plus any capital improvements to the real property.*

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**Description of Commercial Real Estate - continued**

<u>Unit Name</u>	<u>Property Type</u>	<u>Ownership Interest</u>	<u>Square Feet</u>	<u>Year Acquired</u>	<u>Year of Construction/Remodel</u>	<u>Investment</u>	<u>Occupancy</u>	<u>Annualized Rental Income</u>	<u>Monthly Avg. Rent Per Sq. Foot</u>	<u>Number Units</u>
Southdale Medical Center 6545 France Ave. South	Multi-Story Office	Fee -69%	195,983	2001	1958-1999	\$32,421,070	100.00%	\$ 3,420,000	\$ 1.45	1
Maple Grove Northgate II 6420 Sycamore Lane	Single Story Office	Fee-100%	25,999	2000	1997	\$ 2,348,979	100.00%	\$ 628,672	\$ 2.02	2
Maplewood HealthEast I 1574 St. Johns Blvd.	Multi-Story Office	Fee-100%	34,195	2000	2000	\$ 6,266,915	100.00%	\$ 632,177	\$ 1.54	1
Woodbury HealthEast II 1851 Weir Dr.	Multi-Story Office	Fee-100%	80,021	2000	2000	\$14,334,084	100.00%	\$ 1,475,079	\$ 1.54	1
Minnetonka Hospitality Associates 17800 Excelsior Blvd.	Multi-Story Office	Fee-100%	4,000	2001	1985	\$ 400,898	n/a	\$ 42,000	\$ 0.88	1
Moorhead Pioneer Seed Co.1505 29th Ave. South	Office/Warehouse	Fee-100%	13,600	1992	1979	\$ 653,876	100.00%	\$ 80,000	\$ 0.49	1
Plymouth	Single Story Office	Fee-100%	53,309	2001	2000	\$ 5,891,898	n/a	\$ 612,851	\$ 0.96	4

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Plymouth Tech IV 5000 Chelshire Lane North Plymouth Tech V 5010 Chelshire Lane North	Single Story Office	Fee-100%	73,500	2001	2000	\$ 8,136,431	n/a	\$ 643,128	\$ 0.73	2
Rochester Maplewood Square 3956 E Frontage Rd Hwy 52 N	Multi-Tenant Retail	Fee-100%	118,397	2000	1990	\$11,898,946	98.31%	\$ 1,160,094	\$ 0.82	11
St. Cloud Cold Spring Center 4150 2nd St. South	Multi-Story Office	Fee-100%	77,533	2001	1989	\$ 8,395,539	n/a	\$ 857,990	\$ 0.92	6
Waconia Stone Container 888 Industrial Blvd.	Office/Warehouse	Fee-100%	29,440	2001	1996	\$ 1,666,518	100.00%	\$ 181,371	\$ 0.51	1

*n/a Property held less than 12 months*

*(1) Investment is the actual cost paid for the property by IRET plus any capital improvements to the real property.*

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**Description of Commercial Real Estate - *continued***

<u>Unit Name</u>	<u>Property Type</u>	<u>Ownership Interest</u>	<u>Square Feet</u>	<u>Year Acquired</u>	<u>Year of Construction/Remodel</u>	<u>Investment</u>	<u>Occupancy</u>	<u>Annualized Rental Income</u>	<u>Monthly Avg. Rent per Sq. Foot</u>	<u>Number Units</u>
Winsted Stern Lighting 351 Lewis Ave. West	Office/Warehouse	Fee-100%	<u>38,000</u>	2001	1985	\$ <u>1,000,789</u>	<u>n/a</u>	\$ <u>130,000</u>	<u>0.29</u>	<u>1</u>
Total Minnesota			1,430,460			\$141,291,654	99.73%	\$15,760,052	.92	88
Montana Belgrade Edgewood Vista 1101 Cardinal Dr.	Assisted Living	Fee-100%	5,100	2000	2000	\$ 453,494	100.00%	\$ 57,198	0.93	1
Billings Creekside Office Park 1001 S 24th St. West	Multi-Story Office	Fee-100%	37,318	1992	1984	\$ 1,868,570	81.39%	\$ 415,602	0.93	20
Edgewood Vista 1225 Wicks Lane	Assisted Living	Fee-100%	11,971	1999	1999	\$ 980,218	100.00%	\$ 125,318	0.87	1
Kalispell										

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Edgewood Vista 141 Interstate									\$	
Lane Assisted Living	Fee-100%	5,895	2001	2001	\$ 568,150	100.00%	\$ 71,307	1.01		1
Missoula Edgewood Vista 2815									\$	
Palmer Assisted Living	Fee-100%	<u>10,314</u>	1997	1997	\$ <u>962,428</u>	<u>100.00%</u>	\$ <u>126,135</u>	<u>1.02</u>		<u>1</u>
Total Montana		70,598			\$ 4,832,860	90.38%	\$ 795,560	0.94	\$	24

Nebraska Columbus Edgewood Vista 3386 53rd									\$	
Avenue Assisted Living	Fee-100%	5,100	2000	2000	\$ 455,626	100.00%	\$ 57,197	0.93		1
Freemont Edgewood Vista 2910 North Clarkson									\$	
St. Assisted Living	Fee-100%	5,100	2000	2000	\$ 546,410	100.00%	\$ 68,177	1.11		1
Grand Island Edgewood Vista 214 North Piper									\$	
Street Assisted Living	Fee-100%	5,100	2000	2000	\$ 455,626	100.00%	\$ 57,197	0.93		1

*n/a*Property held less than 12 months

(1)Investment is the actual cost paid for the property by IRET plus any capital improvements to the real property.

**Description of Commercial Real Estate - continued**

<u>Unit Name</u>	<u>Property Type</u>	<u>Ownership Interest</u>	<u>Square Feet</u>	<u>Year Acquired</u>	<u>Year of Construction/ Remodel</u>	<u>Investment</u>	<u>Occupancy</u>	<u>Annualized Rental Income</u>	<u>Monthly Avg. Rent Per Sq.Foot</u>	<u>Number Units</u>
Hastings Edgewood Vista 2400 West 12th St.	Assisted Living	Fee-100%	5,100	2000	2000	\$ 565,777	100.00%	\$ 60,588	\$ 0.99	1
Omaha Ameritrade Headquarter 4211 South 102nd St.	Single Story Office	Fee-100%	73,774	1999	1993/1997	\$8,306,535	100.00%	\$ 748,000	\$ 0.84	1
Barnes & Noble 3333 Oak Dr.	Single-Tenant Retail	Fee-100%	27,500	1995	1995	\$3,699,197	100.00%	\$ 409,956	\$ 1.24	1
Edgewood Vista 17620 Poppleton Street	Assisted Living	Fee-100%	<u>5,100</u>	2000	2000	\$ <u>611,370</u>	<u>100.00%</u>	\$ <u>77,775</u>	\$ <u>1.27</u>	<u>1</u>
Total Nebraska			126,774			\$14,640,541	100.00%	\$ 1,478,890	\$ .97	7

North Dakota

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Bismarck										
Lester Chiropractic										
Clinic 1122 West										
Divide Ave.	Single Story Office	Fee-100%	5,400	1988	1974	\$ 268,917	100.00%	\$ 33,840	\$ 0.52	1
Fargo										
Barnes & Noble										
1201 42nd St. SW	Single-Tenant Retail	Fee-100%	30,000	1994	1994	\$ 3,259,893	100.00%	\$ 396,750	\$ 1.10	1
Great Plains										
Software3900 44th	2 Story Office	Fee-100%	121,600	1999	1999	\$15,375,154	100.00%	\$ 1,875,000	\$ 1.28	1
Ave. SW										
Petco 1126 43rd St.	Single-Tenant Retail	Fee-100%	18,000	1994	1994	\$ 1,278,934	100.00%	\$ 185,040	\$ 0.86	1
SW										
Stone Container										
4637 16th Ave. NW	Office/Warehouse	Fee-100%	193,350	1995	1995-2001	\$ 7,000,364	100.00%	\$ 884,793	\$ 0.38	1
Grand Forks										
Carmike Theatre										
2306 32nd Ave.										
South	Multi-Plex Theatre	Fee-100%	28,300	1994	1986	\$ 2,545,737	100.00%	\$ 318,232	\$ 0.94	1
MedPark										
Mall1375&1395 S										
Columbia Rd	Multi-Tennant Retail	Fee-100%	59,177	2000	1989	\$ 5,642,950	97.31%	\$ 625,816	\$ 0.88	13

n/a Property held less than 12 months

(1) Investment is the actual cost paid for the property by IRET plus any capital improvements to the real property.

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Description of Commercial Real Estate - continued

Unit Name	Property Type	Ownership Interest	Square Feet	Year Acquired	Year of Construction/ Remodel	Investment	Occupancy	Annualized Rental Income	Monthly Avg. Rent Per Sq. Foot	Number Units
Minot										
13 1st Ave SW	Multi-Story Office	Fee-100%	15,900	1981	1929-1993	\$ 533,765	58.82%	\$ 114,794	\$ 0.60	23
12 South Main	Multi-Story Office	Fee-100%	11,300	2001	1905-1985	\$ 389,205	93.25%	\$ 47,979	\$ 0.35	9
17 South Main	Multi-Story Office	Fee-100%	6,500	2001	1908-1990	\$ 90,000	100.00%	\$ 14,100	\$ 0.18	1
Single Tenant										
114 South Main	Retail	Fee-100%	3,500	1978	1910-1985	\$ 111,996	0.00%	\$ 0	\$ 0	1
401 South Main	Multi-Story Office	Fee-100%	11,200	1987	1956-1982	\$ 659,914	90.41%	\$ 74,503	\$ 0.55	10
Arrowhead Shopping										
Center 1600 2nd	Multi-Tennant							\$		
Ave. SW	Retail	Fee-100%	80,000	1973	1961-1998	\$ 2,973,786	98.74%	372,782	\$ 0.39	26
Corner Express										
C-Store 3630 South	C-Store	Fee-100%	4,674	1998	1998	\$ 1,581,260	100.00%	\$ 172,260	\$ 3.07	1
Broadway										
Edgewood Vista 706	Assisted Living	Fee-100%	97,821	1997	1997	\$ 6,270,707	100.00%	\$ 810,581	\$ 0.69	1
16th Ave. SE										
Minot Plaza 1930	Multi-Tennant									
South Broadway	Retail	Fee-100%	<u>10,020</u>	1993	1983	<u>\$ 509,954</u>	<u>100.00%</u>	<u>\$ 120,298</u>	<u>\$ 1.00</u>	<u>4</u>
Total North Dakota			696,742			\$48,492,536	98.52%	\$ 6,046,768	\$ .72	95
South Dakota										
Rapid City										
Conseco 900										
Concourse Dr.	Single Story Office	Fee-100%	75,815	2000	2000	\$ 7,044,870	100.00%	\$ 771,214	\$ 0.85	1
Sioux Falls										
Edgewood Vista										
3401 Ralph Rodgers	Assisted Living	Fee-100%	<u>11,971</u>	1999	1999	<u>\$ 974,739</u>	<u>100.00%</u>	<u>\$ 125,318</u>	<u>\$ 0.87</u>	<u>1</u>
Rd.										
Total South Dakota			<u>87,786</u>			<u>\$ 8,019,609</u>	<u>100.00%</u>	<u>\$ 896,532</u>	<u>\$ .85</u>	<u>2</u>

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Total Commercial Properties	2,527,367	\$228,158,801	98.59%	\$ 25,639,743	\$ .85	219
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*n/a Property held less than 12 months*

*(1) Investment is the actual cost paid for the property by IRET plus any capital improvements to the real property.*

**Description of Residential Real Estate**

IRET owned the following residential properties as of April 30, 2001:

<u>Unit Name</u>	<u>Property Type</u>	<u>Ownership Interest</u>	<u>Square Feet</u>	<u>Year Acquired</u>	<u>Investment</u>	<u>Year of Construction/Remodel</u>	<u>Occupancy</u>	<u>Annualized Rental Income</u>	<u>Monthly Avg. Rent Per Unit</u>	<u>Number Units</u>
Colorado										
Colorado Springs Neighborhood										
3502-3508 Van Teylingen Dr. Ft. Collins MiraMont	Multi-Family	Fee-100%	204,480	1996	\$11,422,781	1980-1985	96.27%	\$1,787,824	\$ 775.97	192
4900 Boardwalk Dr. Bldg A Pine Cone	Multi-Family	Fee-100%	215,800	1996	\$14,363,539	1996	97.10%	\$ 2,145,632	\$ 851.44	210
2212 Vermont Dr.	Multi-Family	Fee-100%	<u>197,135</u>	1994	<u>\$ 13,263,860</u>	1994	<u>96.71%</u>	<u>\$ 1,924,155</u>	<u>\$ 822.29</u>	<u>195</u>
Total Colorado			617,415		\$39,050,180		96.88%	\$5,857,611	\$ 816.57	597
Idaho										
Boise										
Clearwater 660 South Clearwater Lane	Multi-Family	Fee-100%	<u>57,000</u>	1999	<u>\$ 3,853,638</u>	1995	<u>92.14%</u>	<u>\$ 556,440</u>	<u>\$ 772.83</u>	<u>60</u>
Total Idaho			57,000		\$ 3,853,638		92.14%	\$ 556,440	\$ 72.83	60
Iowa										
Sioux City										
Ridge Oaks 2300 Indian Hills Drive	Multi-Family	Fee-100%	<u>183,720</u>	2001	<u>\$ 4,281,967</u>	1976-2001	<u>n/a%</u>	<u>\$ 895,080</u>	<u>\$ 565.08</u>	<u>132</u>
Total Iowa			183,720		\$ 4,281,967		n/a%	\$ 895,080	\$ 565.08	132
Kansas										
Topeka										
Crown Colony 900 SW Robinson	Multi-Family	Fee-100%	208,864	2000	\$10,817,090	1986	83.88%	\$ 1,739,359	\$ 658.85	220

*n/a Property held less than 12 months*

*(1) Investment is the actual cost paid for the property by IRET plus any capital improvements to the real property.*

**Description of Residential Real Estate - continued**

<u>Unit Name</u>	<u>Property Type</u>	<u>Ownership Interest</u>	<u>Square Feet</u>	<u>Year Acquired</u>	<u>Investment</u>	<u>Year of Construction/</u>	<u>Occupancy</u>	<u>Annualized Rental</u>	<u>Monthly Avg. Rent</u>	<u>Number Units</u>
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						<u>Remodel</u>		<u>Income</u>	<u>Per Unit</u>	
Sherwood 2745 SW Villa W Drive	Multi-Family	Fee-100%	<u>200,390</u>	2000	\$ <u>16,001,205</u>	1987	<u>86.97%</u>	\$ <u>2,471,037</u>	\$ <u>686.40</u>	<u>300</u>
Total Kansas			409,254		\$26,818,295		86.98%	\$ 4,210,396	\$ 674.74	520
Minnesota										
Moorhead Eastgate 1605 20th St. S	Multi-Family	Fee-100%	129,504	1970	\$ 2,425,737	1968-1997	90.25%	\$ 562,274	\$ 403.93	116
Rochester										
Heritage Manor 2409 Hwy 52 N	Multi-Family	Fee-100%	173,634	1999	\$ 7,697,780	1965-1999	99.41%	\$ 1,270,490	\$ 581.73	182
Woodridge 2804 2nd St. SW	Multi-Family	Fee-100%	191,118	1996	\$ 6,775,134	1991	98.46%	\$ 1,237,638	\$ 954.97	108
Sunset Trail 3675 41st St. NW	Multi-Family	Fee-100%	77,078	2,000	\$ 7,908,091	2000	96.53%	\$ 886,920	\$ 1,012.46	73
Sunset Trail II & III 3675 41st St. NW	Multi-Family	Fee-100%	(2)	2001	\$ 4,006,932	2001	(2)	(2)	(2)	(2)
St. Cloud										
Lancaster Place 1100 East Division St.	Multi-Family	Fee-100%	106,222	2000	\$ 3,226,626	1989	95.87%	\$ 575,016	\$ 570.45	84
Park Meadows 360 Park Meadows Dr.	Multi-Family	Fee-100%	423,100	1997	\$11,673,583	1982-1989	97.72%	\$ 2,488,248	\$ 575.98	360
West Stonehill 625 10th Ave. S	Multi-Family	Fee-100%	<u>374,160</u>	1995	<u>\$11,771,140</u>	1989-1991	<u>99.64%</u>	<u>\$ 2,244,024</u>	<u>\$ 597.45</u>	<u>313</u>
Total Minnesota			1,474,816		\$55,485,023		97.10%	\$ 9,264,610	\$ 627.06	1,236

n/a Property held less than 12 months

(1) Investment is the actual cost paid for the property by IRET plus any capital improvements to the real property.

(2) The property is currently in the lease-up phase having been completed on August 25, 2001.

**Description of Residential Real Estate - continued**

<u>Unit Name</u>	<u>Property Type</u>	<u>Ownership Interest</u>	<u>Square Feet</u>	<u>Year Acquired</u>	<u>Investment</u>	<u>Year of Construction/Remodel</u>	<u>Occupancy</u>	<u>Annualized Rental Income</u>	<u>Monthly Avg. Rent Per Unit</u>	<u>Number Units</u>
Montana										
Billings										
Castle Rock 1551 Nottingham Pl.	Multi-Family	Fee-100%	174,604	1999	\$ 5,742,534	1979-1999	92.49%	\$ 1,083,846	\$ 547.40	165
Country Meadows I 1550 Country Manor Blvd.	Multi-Family	Fee-100%	115,202	1996	\$ 4,361,135	1999	97.34%	\$ 588,156	\$ 731.54	67
Country Meadows II 1550 Country Manor Blvd.	Multi-Family	Fee-100%	115,202	2000	\$ 4,359,718	2000	97.50%	\$ 588,156	\$ 731.54	67
Olympic Village 3900 Victory Circle	Multi-Family	Fee-100%	319,312	2001	\$11,782,852	1983	n/a%	\$ 1,624,332	\$ 494.02	274
Rimrock 2220 St. Johns Ave.-A	Multi-Family	Fee-100%	99,196	2000	\$ 3,899,680	1984	97.12%	\$ 551,386	\$ 589.09	78
Rocky Meadows 2440 Village Lane	Multi-Family	Fee-100%	<u>150,916</u>	1996	<u>\$ 6,737,109</u>	1996-1997	<u>96.93%</u>	<u>\$ 831,495</u>	<u>\$ 707.05</u>	<u>98</u>
Total Montana			974,432		\$36,883,028		96.30%	\$ 5,267,371	\$ 586.04	749
Nebraska										
Lincoln										
	Multi-Family	Fee-100%	<u>274,253</u>	2000	<u>\$ 9,956,873</u>	1974-2000	<u>96.42%</u>	<u>\$ 1,717,838</u>	<u>\$ 542.25</u>	<u>264</u>

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Thomasbrook 5900  
Roose St.

Total Nebraska			274,253		\$ 9,956,873		96.42%	\$ 1,717,838	\$ 542.25	264
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North Dakota

Bismarck

Cottonwood Lake I & II

1045 Tacoma	Multi-Family	Fee-100%	205,389	1997	\$ 9,197,265	1997	88.36%	\$ 1,067,563	\$ 663.91	134
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Cottonwood III 1045

Tacoma	Multi-Family	Fee-100%	102,695	2000	\$ 4,535,371	2000	n/a%	\$ 533,782	\$ 663.91	67
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Crestview 1615 E

Capitol Ave.	Multi-Family	Fee-100%	176,320	1994	\$ 4,961,835	1983	94.30%	\$ 857,623	\$ 470.19	152
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*n/a Property held less than 12 months*

*(1) Investment is the actual cost paid for the property by IRET plus any capital improvements to the real property.*

**Description of Residential Real Estate - *continued***

<u>Unit Name</u>	<u>Property Type</u>	<u>Ownership Interest</u>	<u>Square Feet</u>	<u>Year Acquired</u>	<u>Investment</u>	<u>Year of Construction/ Remodel</u>	<u>Occupancy</u>	<u>Annualized Rental Income</u>	<u>Monthly Avg. Rent Per Unit</u>	<u>Number Units</u>
Kirkwood Manor 114 E Indiana Ave.	Multi-Family	Fee-100%	135,244	1997	\$ 3,731,401	1983-1984	93.86%	\$ 657,872	\$ 507.62	108
North Pointe 1930 E Capitol Ave	Multi-Family	Fee-100%	83,250	1995	\$ 2,446,675	1995	97.99%	\$ 370,776	\$ 630.57	49
Pebble Creek 3110 N 19th St.	Multi-Family	Fee-100%	22,400	2000	\$ 784,962	1993	98.04%	\$ 102,954	\$ 476.64	18
Westwood Park 1101 Westwood St. #100	Multi-Family	Fee-100%	66,166	1999	\$ 2,205,488	1984	99.25%	\$ 395,621	\$ 515.13	64
Dickinson										
Century 1156 W 2nd St. 101-124	Multi-Family	Fee-100%	130,144	1986	\$ 2,321,814	1979-1998	88.09%	\$ 588,954	\$ 409.00	120
Eastwood 177 10th Ave. E										