

INVESTORS REAL ESTATE TRUST

Form 10-Q

March 12, 2013

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C.

20549

Form 10-Q

Quarterly Report Pursuant to Section 13 or 15(d)

of the Securities Exchange Act of 1934

For Quarter Ended January 31, 2013

Commission File Number 0-14851

INVESTORS REAL ESTATE TRUST

(Exact name of registrant as specified in its charter)

North Dakota 45-0311232

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

incorporation or organization)

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

Post Office Box 1988

Minot, ND 58702-1988

(Address of principal executive offices) (Zip code)

(701) 837-4738

(Registrant's telephone number, including area code)

N/A

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

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

Yes R No

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

Yes R No

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

Large accelerated filer  Accelerated filer R

Non-accelerated filer  Smaller Reporting Company

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

Yes  No R

Registrant is a North Dakota Real Estate Investment Trust. As of February 22, 2013, it had 94,619,953 common shares of beneficial interest outstanding.

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## PART I

## ITEM 1. FINANCIAL STATEMENTS - THIRD QUARTER - FISCAL 2013

## INVESTORS REAL ESTATE TRUST AND SUBSIDIARIES

## CONDENSED CONSOLIDATED BALANCE SHEETS (unaudited)

	(in thousands, except share data)	
	January 31, 2013	April 30, 2012
<b>ASSETS</b>		
Real estate investments		
Property owned	\$2,007,832	\$1,892,009
Less accumulated depreciation	(408,400 )	(373,490 )
	1,599,432	1,518,519
Development in progress	20,127	27,599
Unimproved land	18,879	10,990
Total real estate investments	1,638,438	1,557,108
Real estate held for sale	733	2,067
Cash and cash equivalents	62,302	39,989
Other investments	638	634
Receivable arising from straight-lining of rents, net of allowance of \$1,310 and \$1,209, respectively	25,471	23,273
Accounts receivable, net of allowance of \$459 and \$154, respectively	3,560	7,052
Real estate deposits	165	263
Prepaid and other assets	5,545	3,703
Intangible assets, net of accumulated amortization of \$26,599 and \$47,813, respectively	41,009	44,588
Tax, insurance, and other escrow	13,306	11,669
Property and equipment, net of accumulated depreciation of \$1,598 and \$1,423, respectively	1,288	1,454
Goodwill	1,106	1,120
Deferred charges and leasing costs, net of accumulated amortization of \$17,574 and \$16,244, respectively	22,513	21,447
<b>TOTAL ASSETS</b>	<b>\$1,816,074</b>	<b>\$1,714,367</b>
<b>LIABILITIES AND EQUITY</b>		
<b>LIABILITIES</b>		
Accounts payable and accrued expenses	\$44,540	\$47,403
Revolving line of credit	10,000	39,000
Mortgages payable	1,041,623	1,048,689
Other	21,632	14,012
<b>TOTAL LIABILITIES</b>	<b>1,117,795</b>	<b>1,149,104</b>
<b>COMMITMENTS AND CONTINGENCIES (NOTE 6)</b>		
<b>EQUITY</b>		
Investors Real Estate Trust shareholders' equity		
Series A Preferred Shares of Beneficial Interest (Cumulative redeemable preferred shares, no par value, 1,150,000 shares issued and outstanding at January 31, 2013 and April 30, 2012, aggregate liquidation preference of \$28,750,000)	27,317	27,317
Series B Preferred Shares of Beneficial Interest (Cumulative redeemable preferred shares, no par value, 4,600,000 and 0 shares issued and outstanding at January 31, 2013 and April 30, 2012, respectively, aggregate liquidation preference of \$115,000,000)	111,357	0
	721,742	684,049

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Common Shares of Beneficial Interest (Unlimited authorization, no par value, 94,386,198 shares issued and outstanding at January 31, 2013, and 89,473,838 shares issued and outstanding at April 30, 2012)

Accumulated distributions in excess of net income	(305,145 )	(278,377 )
Total Investors Real Estate Trust shareholders' equity	555,271	432,989
Noncontrolling interests – Operating Partnership (21,489,458 units at January 31, 2013 and 20,332,415 units at April 30, 2012)	121,940	118,710
Noncontrolling interests – consolidated real estate entities	21,068	13,564
Total equity	698,279	565,263
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$1,816,074</b>	<b>\$1,714,367</b>

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

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INVESTORS REAL ESTATE TRUST AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited)  
 for the three and nine months ended January 31, 2013 and 2012

	(in thousands, except per share data)			
	Three Months		Nine Months Ended	
	Ended		January 31	
	January 31	January 31	2013	2012
	2013	2012	2013	2012
REVENUE				
Real estate rentals	\$54,307	\$49,859	\$159,026	\$147,663
Tenant reimbursement	11,924	10,687	34,134	32,247
TOTAL REVENUE	66,231	60,546	193,160	179,910
EXPENSES				
Depreciation/amortization related to real estate investments	15,506	14,280	46,602	42,470
Utilities	4,759	4,457	13,816	13,249
Maintenance	7,692	6,338	21,545	19,991
Real estate taxes	8,730	7,993	25,358	23,374
Insurance	1,070	876	2,932	2,514
Property management expenses	4,124	4,926	12,369	15,631
Administrative expenses	2,092	1,493	5,970	5,356
Advisory and trustee services	153	166	432	588
Other expenses	464	359	1,496	1,509
Amortization related to non-real estate investments	794	903	2,426	2,395
TOTAL EXPENSES	45,384	41,791	132,946	127,077
Gain on involuntary conversion	0	0	2,263	0
Operating income	20,847	18,755	62,477	52,833
Interest expense	(15,725)	(16,411)	(48,448)	(48,389)
Interest income	70	25	176	115
Other income	185	254	424	530
Income from continuing operations	5,377	2,623	14,629	5,089
Income (loss) from discontinued operations	776	(102)	3,530	496
NET INCOME	6,153	2,521	18,159	5,585
Net income attributable to noncontrolling interests – Operating Partnership	(556)	(351)	(2,097)	(723)
Net income attributable to noncontrolling interests – consolidated real estate entities	(273)	(43)	(547)	(29)
Net income attributable to Investors Real Estate Trust	5,324	2,127	15,515	4,833
Dividends to preferred shareholders	(2,879)	(593)	(6,350)	(1,779)
NET INCOME AVAILABLE TO COMMON SHAREHOLDERS	\$2,445	\$1,534	\$9,165	\$3,054
Earnings per common share from continuing operations – Investors Real Estate Trust – basic and diluted	.02	.02	.07	.03
Earnings per common share from discontinued operations – Investors Real Estate Trust – basic and diluted	.01	.00	.03	.01
NET INCOME PER COMMON SHARE – BASIC AND DILUTED	\$.03	\$.02	\$.10	\$.04
DIVIDENDS PER COMMON SHARE	\$.1300	\$.1300	\$.3900	\$.4315

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

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## INVESTORS REAL ESTATE TRUST AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF EQUITY (unaudited)

for the nine months ended January 31, 2013 and 2012

(in thousands)

	NUMBER OF PREFERRED SHARES		NUMBER OF COMMON SHARES		ACCUMULATED DISTRIBUTIONS IN EXCESS OF NET INCOME			NONCONTROLLING INTERESTS		TOTAL EQUITY
Balance April 30, 2011	1,150	\$ 27,317	80,523	\$ 621,936	\$ (237,563	)	\$ 132,600		\$ 544,290	
Net income attributable to Investors Real Estate Trust and nonredeemable noncontrolling interests					4,833		740		5,573	
Distributions – common shares and units					(35,433	)	(8,513	)	(43,946)	
Distributions – Series A preferred shares					(1,779	)			(1,779)	
Distribution reinvestment and share purchase plan			3,992	28,831					28,831	
Shares issued			471	3,413					3,413	
Partnership units issued							2,469		2,469	
Redemption of units for common shares			759	3,454			(3,454	)	0	
Contributions from noncontrolling interests – consolidated real estate entities							2,227		2,227	
Other			(2	) (330	)		(586	)	(916)	
Balance January 31, 2012	1,150	\$ 27,317	85,743	\$ 657,304	\$ (269,942	)	\$ 125,483		\$ 540,162	
Balance April 30, 2012	1,150	\$ 27,317	89,474	\$ 684,049	\$ (278,377	)	\$ 132,274		\$ 565,263	
Net income attributable to Investors Real Estate Trust and nonredeemable noncontrolling interests					15,515		2,644		18,159	
Distributions – common shares and units					(35,933	)	(8,193	)	(44,126)	
Distributions – Series A preferred shares					(1,779	)			(1,779)	
Distributions – Series B preferred shares					(4,571	)			(4,571)	
Distribution reinvestment and share purchase plan			4,315	34,072					34,072	
Shares issued			396	2,846					2,846	
Series B preferred shares issued	4,600	111,357							111,357	

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Partnership units issued						10,116		10,116	
Redemption of units for common shares	203		846			(846	)	0	
Contributions from noncontrolling interests – consolidated real estate entities						7,068		7,068	
Other	(2	)	(71	)		(55	)	(126	)
Balance January 31, 2013	5,750	\$ 138,674	94,386	\$ 721,742	\$ (305,145	)	\$ 143,008	\$ 698,279	

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

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INVESTORS REAL ESTATE TRUST AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)  
 for the nine months ended January 31, 2013 and 2012

	(in thousands)	
	Nine Months Ended	
	January 31	
	2013	2012
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$18,159	\$5,585
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	50,475	46,328
Gain on sale of real estate, land, other investments and discontinued operations	(3,452 )	(589 )
Gain on involuntary conversion	(2,263 )	0
Impairment of real estate investments	0	135
Bad debt expense	893	771
Changes in other assets and liabilities:		
Increase in receivable arising from straight-lining of rents	(2,319 )	(3,370 )
Decrease in accounts receivable	1,969	946
Increase in prepaid and other assets	(1,846 )	(1,756 )
Increase in tax, insurance and other escrow	(1,189 )	(901 )
Increase in deferred charges and leasing costs	(4,705 )	(5,480 )
(Decrease) increase in accounts payable, accrued expenses, and other liabilities	(478 )	2,759
Net cash provided by operating activities	55,244	44,428
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from real estate deposits	1,193	1,640
Payments for real estate deposits	(1,095 )	(1,889 )
Principal proceeds on mortgage loans receivable	0	159
Increase in other investments	0	(8 )
Decrease in lender holdbacks for improvements	1,514	5,056
Increase in lender holdbacks for improvements	(1,962 )	(315 )
Proceeds from sale of discontinued operations	3,909	2,088
Proceeds from sale of real estate and other investments	45	438
Insurance proceeds received	3,455	5,644
Payments for acquisitions and improvements of real estate assets	(103,002)	(101,791)
Net cash used by investing activities	(95,943 )	(88,978 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from mortgages payable	57,030	84,195
Principal payments on mortgages payable	(84,359 )	(53,661 )
Proceeds from revolving line of credit and other debt	26,854	24,227
Principal payments on revolving line of credit and other debt	(34,550 )	(60 )
Proceeds from sale of common shares, net of issue costs	2,448	2,970
Proceeds from sale of common shares under distribution reinvestment and share purchase program	24,300	20,778
Proceeds from underwritten Public Offering of Preferred Shares – Series B, net of offering costs	111,357	0
Repurchase of fractional shares and partnership units	(15 )	(13 )
Payments for acquisition of noncontrolling interests – consolidated real estate entities	0	(1,289 )
Distributions paid to common shareholders, net of reinvestment of \$9,307 and \$7,548, respectively	(26,626 )	(27,885 )
Distributions paid to preferred shareholders	(5,588 )	(1,779 )

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Distributions paid to noncontrolling interests – Unitholders of the Operating Partnership, net of reinvestment of \$465 and \$504, respectively	(7,728 )	(8,009 )
Distributions paid to noncontrolling interests – consolidated real estate entities	(111 )	(586 )
Distributions paid to redeemable noncontrolling interests – consolidated real estate entities	0	(27 )
Net cash provided by financing activities	63,012	38,861
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	22,313	(5,689 )
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	39,989	41,191
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$62,302	\$35,502

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INVESTORS REAL ESTATE TRUST AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited, continued)  
 for the nine months ended January 31, 2013 and 2012

	(in thousands)	
	Nine Months	
	Ended	
	January 31	
	2013	2012
<b>SUPPLEMENTARY SCHEDULE OF NON-CASH INVESTING AND FINANCING</b>		
<b>ACTIVITIES FOR THE PERIOD</b>		
Distribution reinvestment plan	\$9,307	\$7,548
Operating partnership distribution reinvestment plan	465	504
Operating partnership units converted to shares	846	3,454
Shares issued under the Incentive Award Plan	398	443
Real estate assets acquired through the issuance of operating partnership units	10,116	2,469
Real estate assets acquired through assumption of indebtedness and accrued costs	12,500	7,190
Mortgages included in real estate dispositions	5,887	0
Decrease to accounts payable included within real estate investments	(2,868 )	(3,244 )
Land contributed by noncontrolling interests – consolidated real estate entities	7,068	2,227
Fair value adjustments to redeemable noncontrolling interests	0	35
Involuntary conversion of assets due to flood and fire damage	107	2,638
Construction debt reclassified to mortgages payable	13,650	7,190
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Cash paid during the period for:		
Interest on mortgages	46,276	45,321
Interest other	1,020	2,098
	\$47,296	\$47,419

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

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INVESTORS REAL ESTATE TRUST AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

for the nine months ended January 31, 2013 and 2012

NOTE 1 • ORGANIZATION

Investors Real Estate Trust ("IRET" or the "Company") is a self-advised real estate investment trust engaged in acquiring, owning and leasing multi-family and commercial real estate. IRET has elected to be taxed as a Real Estate Investment Trust ("REIT") under Sections 856-860 of the Internal Revenue Code of 1986, as amended. As a REIT, we are subject to a number of organizational and operational requirements, including a requirement to distribute 90% of ordinary taxable income to shareholders, and, generally, are not subject to federal income tax on net income, except for taxes on undistributed REIT taxable income. IRET's multi-family residential properties and commercial properties are located mainly in the states of North Dakota and Minnesota, but also in the states of Colorado, Idaho, Iowa, Kansas, Missouri, Montana, Nebraska, South Dakota, Wisconsin and Wyoming. As of January 31, 2013, IRET owned 85 multi-family residential properties with 9,924 apartment units and 184 commercial properties, consisting of office, medical, industrial and retail properties, totaling 12.4 million net rentable square feet. IRET conducts a majority of its business activities through its consolidated operating partnership, IRET Properties, a North Dakota Limited Partnership (the "Operating Partnership"), as well as through a number of other consolidated subsidiary entities. All references to IRET or the Company refer to Investors Real Estate Trust and its consolidated subsidiaries.

NOTE 2 • BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

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

The accompanying condensed consolidated financial statements include the accounts of IRET and its interest in the Operating Partnership. The Company's interest in the Operating Partnership was 81.5% of the common units of the Operating Partnership as of January 31, 2013 and April 30, 2012. The limited partners in the Operating Partnership have a redemption option that they may exercise. Upon exercise of the redemption option by the limited partners, IRET has the choice of redeeming the limited partners' interests ("Units") for IRET common shares of beneficial interest, on a one-for-one basis, or making a cash payment to the unitholder. The redemption generally may be exercised by the limited partners at any time after the first anniversary of the date of the acquisition of the Units (provided, however, that in general not more than two redemptions by a limited partner may occur during each calendar year, and each limited partner may not exercise the redemption for less than 1,000 Units, or, if such limited partner holds less than 1,000 Units, for all of the Units held by such limited partner). The Operating Partnership and some limited partners have contractually agreed to a holding period of greater than one year and/or a greater number of redemptions during a calendar year.

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

UNAUDITED INTERIM FINANCIAL STATEMENTS

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

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The current period's results of operations are not necessarily indicative of results which ultimately may be achieved for the year. The interim condensed consolidated financial statements and notes thereto should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended April 30, 2012, as filed with the SEC on July 16, 2012, as amended by the Current Report on Form 8-K filed with the SEC on December 10, 2012.

### RECENT ACCOUNTING PRONOUNCEMENTS

In September 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2011-08, Testing Goodwill for Impairment. This standard gives entities testing goodwill for impairment the option of performing a qualitative assessment before calculating the fair value of the reporting unit (step I of the goodwill impairment test). If entities determine, on the basis of qualitative factors, that the fair value of the reporting unit is more likely than not less than its carrying amount, the two-step impairment test would be required. Otherwise, no further testing is required. The ASU does not change how goodwill is calculated or assigned to reporting units, nor does it revise the requirement to test goodwill annually for impairment. The ASU is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011, with early adoption permitted. The Company adopted this update for fiscal year 2013, and does not expect the adoption will have an impact on the Company's consolidated results of operations or financial condition.

In July 2012, the FASB issued ASU 2012-02, Topic 350 - Intangibles - Goodwill and Other: Testing Indefinite-Lived Intangible Assets for Impairment ("ASU 2012-02"), which amends Topic 350 to allow an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of an indefinite-lived intangible asset is less than its carrying value. An entity would not be required to determine the fair value of the indefinite-lived intangible unless the entity determines, based on the qualitative assessment, that it is more likely than not that its fair value is less than the carrying value. ASU 2012-02 is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012 and early adoption is permitted. The Company will adopt this standard for fiscal year 2014, and does not expect the adoption will have an impact on the Company's consolidated results of operations or financial condition.

### IMPAIRMENT OF LONG-LIVED ASSETS

The Company periodically evaluates its long-lived assets, including its investments in real estate, for impairment indicators. The impairment evaluation is performed on assets by property such that assets for a property form an asset group. The judgments regarding the existence of impairment indicators are based on factors such as operational performance, market conditions, expected holding period of each asset group and legal and environmental concerns. If indicators exist, the Company compares the expected future undiscounted cash flows for the long-lived asset group against the carrying amount of that asset group. If the sum of the estimated undiscounted cash flows is less than the carrying amount of the asset group, an impairment loss is recorded for the difference between the estimated fair value and the carrying amount of the asset group. If our anticipated holding period for properties, the estimated fair value of properties or other factors change based on market conditions or otherwise, our evaluation of impairment charges may be different and such differences could be material to our consolidated financial statements. The evaluation of anticipated cash flows is subjective and is based, in part, on assumptions regarding future occupancy, rental rates and capital requirements that could differ materially from actual results. Plans to hold properties over longer periods decrease the likelihood of recording impairment losses. During the nine months ended January 31, 2013, the Company incurred no losses due to impairment. During the nine months ended January 31, 2012, the Company incurred a loss of approximately \$128,000 due to impairment of a retail property located in Kentwood, Michigan. The impairment was based on receipt of a market offer to purchase and the Company's intent to dispose of the property. A related impairment of \$7,000 was recorded to write off goodwill assigned to the Kentwood property. The property was subsequently sold in the first quarter of fiscal year 2013.

### COMPENSATING BALANCES AND OTHER INVESTMENTS; LENDER HOLDBACKS

The Company maintains compensating balances, not restricted as to withdrawal, with several financial institutions in connection with financing received from those institutions and/or to ensure future credit availability. At January 31, 2013, the Company's compensating balances totaled \$8.9 million and consisted of the following: Dacotah Bank, Minot, North Dakota, deposit of \$350,000; United Community Bank, Minot, North Dakota, deposit of \$275,000; Commerce Bank, A Minnesota Banking Corporation, deposit of \$250,000; First International Bank, Watford City,

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North Dakota, deposit of \$6.1 million; Peoples State Bank of Velva, North Dakota, deposit of \$225,000; Equity Bank, Minnetonka, Minnesota, deposit of \$300,000; Associated Bank, Green Bay, Wisconsin, deposit of \$500,000; Venture Bank, Eagan, Minnesota, deposit of \$500,000, and American National Bank, Omaha, Nebraska, deposit of \$400,000. The deposits at United Community Bank and Equity Bank and a portion of the deposit at Dacotah Bank are held as certificates of deposit and comprise the \$638,000 in other investments on the Condensed

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Consolidated Balance Sheets. The certificates of deposit have remaining terms of less than two years and the Company intends to hold them to maturity.

The Company has a number of mortgage loans under which the lender retains a portion of the loan proceeds for the payment of construction costs or tenant improvements. The decrease of \$1.5 million in lender holdbacks for improvements reflected in the Condensed Consolidated Statements of Cash Flows for the nine months ended January 31, 2013 is due primarily to the release of loan proceeds to the Company upon completion of these construction and tenant improvement projects, while the increase of \$2.0 million represents additional amounts retained by lenders for new projects.

**IDENTIFIED INTANGIBLE ASSETS AND LIABILITIES AND GOODWILL**

Upon acquisition of real estate, the Company records the intangible assets and liabilities acquired (for example, if the leases in place for the real estate property acquired carry rents above the market rent, the difference is classified as an intangible asset) at their estimated fair value separate and apart from goodwill. The Company amortizes identified intangible assets and liabilities that are determined to have finite lives based on the period over which the assets and liabilities are expected to affect, directly or indirectly, the future cash flows of the real estate property acquired (generally the life of the lease). In the nine months ended January 31, 2013 and 2012, respectively, the Company added approximately \$813,000 and \$416,000 of new intangible assets and no new intangible liabilities. The weighted average lives of the intangible assets acquired in the nine months ended January 31, 2013 and 2012 are 0.5 years and 10.0 years, respectively. Amortization of intangibles related to above or below-market leases is recorded in real estate rentals in the Condensed Consolidated Statements of Operations. Amortization of other intangibles is recorded in depreciation/amortization related to real estate investments in the Condensed Consolidated Statements of Operations. Intangible assets subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. An impairment loss is recognized if the carrying amount of an intangible asset is not recoverable and its carrying amount exceeds its estimated fair value.

The Company's identified intangible assets and intangible liabilities at January 31, 2013 and April 30, 2012 were as follows:

	(in thousands)	
	January 31, 2013	April 30, 2012
Identified intangible assets (included in intangible assets):		
Gross carrying amount	\$67,608	\$92,401
Accumulated amortization	(26,599)	(47,813)
Net carrying amount	\$41,009	\$44,588
Identified intangible liabilities (included in other liabilities):		
Gross carrying amount	\$391	\$1,104
Accumulated amortization	(288 )	(967 )
Net carrying amount	\$103	\$137

The effect of amortization of acquired below-market leases and acquired above-market leases on rental income was approximately \$(7,000) and \$(8,000) for the three months ended January 31, 2013 and 2012, respectively, and \$(21,000) and \$(40,000) for the nine months ended January 31, 2013 and 2012. The estimated annual amortization of acquired below-market leases, net of acquired above-market leases for each of the five succeeding fiscal years is as follows:

	(in thousands)
Year Ended April 30,	
2014	\$ 37
2015	18
2016	14
2017	6
2018	(5 )



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Amortization of all other identified intangible assets (a component of depreciation and amortization expense) was \$1.2 million and \$1.2 million for the three months ended January 31, 2013 and 2012, respectively, and \$4.3 million and \$4.4 million for the nine months ended January 31, 2013 and 2012. The estimated annual amortization of all other identified intangible assets for each of the five succeeding fiscal years is as follows:

	(in thousands)
Year Ended April 30,	
2014	\$ 4,146
2015	3,825
2016	3,608
2017	3,139
2018	2,652

The excess of the cost of an acquired business over the net of the amounts assigned to assets acquired (including identified intangible assets) and liabilities assumed is recorded as goodwill. The Company's goodwill has an indeterminate life and is not amortized, but is tested for impairment on an annual basis, or more frequently if events or changes in circumstances indicate that the asset might be impaired. The book value of goodwill as of January 31, 2013 and April 30, 2012 was \$1.1 million. The annual review at April 30, 2012 indicated no impairment to goodwill and there was no indication of impairment at January 31, 2013. During the nine months ended January 31, 2013, the Company disposed of two multi-family residential properties to which goodwill had been assigned, and as a result, approximately \$14,000 of goodwill was derecognized.

**USE OF ESTIMATES**

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**RECLASSIFICATIONS**

Certain previously reported amounts have been reclassified to conform to the current financial statement presentation. The Company reports, in discontinued operations, the results of operations and the related gains or losses of a property that has either been disposed of or is classified as held for sale and otherwise meets the classification of a discontinued operation. As a result of discontinued operations, retroactive reclassifications that change prior period numbers have been made. See Note 7 for additional information. In the third quarter of fiscal year 2013, the Company sold a multi-family residential property. During the first and second quarters of fiscal year 2013, the Company sold four condominium units, a retail property and two multi-family residential properties and classified an additional multi-family residential property as held for sale. During the first and third quarters of fiscal year 2012 the Company had no real estate dispositions; in the second quarter of fiscal year 2012, the Company sold a small retail property. The results of operations for these properties are included in income from discontinued operations in the Condensed Consolidated Statements of Operations.

**INVOLUNTARY CONVERSION OF ASSETS**

As previously reported, Minot, North Dakota, where IRET's corporate headquarters is located, experienced significant flooding in June 2011, resulting in extensive damage to the Arrowhead Shopping Center and to the Chateau Apartments property, which consisted of two 32-unit buildings. Additionally, on February 22, 2012, one of the buildings of the Chateau Apartments property, which had been undergoing restoration work following the flood, was completely destroyed by fire. The costs related to clean-up, redevelopment and loss of rents for these properties are being reimbursed to the Company by its insurance carrier, less the Company's deductible of \$200,000 per event under the policy. The Company expensed \$400,000 in fiscal year 2012 for the flood and fire deductibles. During fiscal year 2012, for the Arrowhead and Chateau flood loss, the Company received \$5.7 million of insurance proceeds for flood clean-up costs and redevelopment. In regard to Arrowhead Shopping Center, the total insurance proceeds for redevelopment at April 30, 2012 exceeded the estimated basis in the assets requiring replacement, resulting in the recognition of approximately \$274,000 in gain from involuntary conversion in fiscal year 2012. IRET expects final settlement of the Arrowhead and Chateau flood insurance claims to occur in the fourth quarter of fiscal

year 2013.

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In the second quarter of fiscal year 2013, for the Chateau fire loss, the Company received \$2.9 million of insurance proceeds for redevelopment. The total insurance proceeds for redevelopment related to the Chateau fire at October 31, 2012 exceeded the estimated basis in the assets requiring replacement, resulting in the recognition of \$2.3 million in gain from involuntary conversion in the second quarter of fiscal year 2013. The Company expects to rebuild the destroyed building but has no firm estimates at this time for costs or expected completion date of such rebuilding. IRET expects final settlement of the Chateau fire insurance claim to occur when the property is rebuilt. Final settlement was reached during the second quarter of fiscal year 2013 for business interruption from the flood and fire with proceeds received during the quarter of \$409,000. During fiscal year 2012, approximately \$666,000 was received, for total business interruption proceeds from the claims of \$1.1 million.

**NOTE 3 • EARNINGS PER SHARE**

Basic earnings per share is computed by dividing net income available to common shareholders by the weighted average number of common shares outstanding during the period. The Company has no outstanding options, warrants, convertible stock or other contractual obligations requiring issuance of additional shares that would result in dilution of earnings. Units can be exchanged for shares on a one-for-one basis after a minimum holding period of one year. The following table presents a reconciliation of the numerator and denominator used to calculate basic and diluted earnings per share reported in the condensed consolidated financial statements for the three and nine months ended January 31, 2013 and 2012:

	(in thousands, except per share data)			
	Three Months Ended January 31		Nine Months Ended January 31	
	2013	2012	2013	2012
<b>NUMERATOR</b>				
Income from continuing operations – Investors Real Estate Trust	\$4,691	\$2,210	\$12,642	\$4,434
Income (loss) from discontinued operations – Investors Real Estate Trust	633	(83 )	2,873	399
Net income attributable to Investors Real Estate Trust	5,324	2,127	15,515	4,833
Dividends to preferred shareholders	(2,879 )	(593 )	(6,350 )	(1,779 )
Numerator for basic earnings per share – net income available to common shareholders	2,445	1,534	9,165	3,054
Noncontrolling interests – Operating Partnership	556	351	2,097	723
Numerator for diluted earnings per share	\$3,001	\$1,885	\$11,262	\$3,777
<b>DENOMINATOR</b>				
Denominator for basic earnings per share weighted average shares	93,794	84,339	92,260	82,424
Effect of convertible operating partnership units	21,413	19,596	21,098	19,752
Denominator for diluted earnings per share	115,207	103,935	113,358	102,176
Earnings per common share from continuing operations – Investors Real Estate Trust – basic and diluted	\$.02	\$.02	\$.07	\$.03
Earnings per common share from discontinued operations – Investors Real Estate Trust – basic and diluted	.01	.00	.03	.01
<b>NET INCOME PER COMMON SHARE – BASIC &amp; DILUTED</b>	<b>\$.03</b>	<b>\$.02</b>	<b>\$.10</b>	<b>\$.04</b>

**NOTE 4 • EQUITY**

On August 7, 2012, the Company completed the public offering of 4.6 million Series B Cumulative Redeemable Preferred Shares of Beneficial Interest ("Series B preferred shares") at a price of \$25.00 per share for net proceeds of \$111.4 million after underwriting discounts and estimated offering expenses. These shares are nonvoting and redeemable for cash at \$25.00 per share at the Company's option on or after August 7, 2017. Holders of these shares are entitled to cumulative distributions, payable quarterly (as and if declared by the Board of Trustees). Distributions accrue at an annual rate of \$1.9875 per share, which is equal to 7.95% of the \$25.00 per share liquidation preference (\$115.0 million liquidation preference in the aggregate). The Company contributed the net proceeds from the sale to the Operating Partnership in exchange for 4.6 million Series B preferred units, which carry terms that are substantially the same as the Series B preferred shares. As of January 31, 2013, all of the proceeds of the public offering had been applied to debt repayment, acquisitions and construction costs at the Company's development projects.

The Company has a shelf registration statement under which it has registered common and preferred shares of beneficial interest with an aggregate public offering price of up to \$150.0 million. On January 20, 2012, the Company entered into a continuous

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equity offering program under this shelf registration statement with BMO Capital Markets Corp. ("BMO") as sales agent, pursuant to which the Company may from time to time offer and sell its common shares of beneficial interest having an aggregate gross sales price of up to \$100.0 million. Sales of common shares, if any, under the program will depend upon market conditions and other factors to be determined by IRET. During the nine months ended January 31, 2013, IRET issued approximately 300,000 common shares under this program for total proceeds (before offering expenses but after underwriting discounts and commissions) of \$2.1 million. During the nine months ended January 31, 2012, IRET issued approximately 366,000 common shares under this program for total proceeds (before offering expenses but after underwriting discounts and commissions) of \$2.7 million.

During the first quarter of fiscal year 2013, the Company issued approximately 53,000 common shares, with a total grant-date value of approximately \$398,000, under the Company's 2008 Incentive Award Plan, for trustee compensation and executive officer bonuses for fiscal year 2012 performance. During first quarter of fiscal year 2012, the Company issued approximately 53,000 common shares, with a total grant-date value of approximately \$443,000, under the 2008 Incentive Award Plan, for trustee compensation and executive officer bonuses for fiscal year 2011 performance.

During the nine months ended January 31, 2013 and 2012, respectively, approximately 203,000 Units and 759,000 Units were converted to common shares, with a total value of approximately \$846,000 and \$3.5 million included in equity. Approximately 43,000 common shares and 52,000 common shares were issued under the Company's 401(k) plan during the nine months ended January 31, 2013 and 2012, respectively, with a total value of approximately \$337,000 and \$372,000 included in equity. Under the Company's Distribution Reinvestment and Share Purchase Plan, approximately 4.3 million common shares and 4.0 million common shares were issued during the nine months ended January 31, 2013 and 2012, respectively, with a total value of \$34.1 million and \$28.8 million included in equity.

**NOTE 5 • SEGMENT REPORTING**

IRET reports its results in five reportable segments: multi-family residential, commercial office, commercial medical (including senior housing), commercial industrial and commercial retail properties. The Company's reportable segments are aggregations of similar properties.

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

The revenues and net operating income for these reportable segments are summarized as follows for the three and nine month periods ended January 31, 2013 and 2012, along with reconciliations to the condensed consolidated financial statements. Segment assets are also reconciled to total assets as reported in the condensed consolidated financial statements.

	(in thousands)					
Three Months Ended January 31, 2013	Multi-Family Residential	Commercial-Office	Commercial-Medical	Commercial-Industrial	Commercial-Retail	Total
Real estate revenue	\$23,067	\$ 19,338	\$ 16,207	\$ 3,853	\$ 3,766	\$66,231
Real estate expenses	10,344	9,399	4,129	1,095	1,408	26,375
Net operating income	\$12,723	\$ 9,939	\$ 12,078	\$ 2,758	\$ 2,358	39,856
Depreciation/amortization						(16,300)
Administrative, advisory and trustee services						(2,245 )
Other expenses						(464 )
Interest expense						(15,725)
Interest and other income						255

Income from continuing operations	5,377
Income from discontinued operations	776
Net income	\$6,153

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Three Months Ended January 31, 2012	(in thousands)					Total
	Multi-Family Residential	Commercial-Office	Commercial-Medical	Commercial-Industrial	Commercial-Retail	
Real estate revenue	\$18,400	\$ 18,541	\$ 16,610	\$ 3,596	\$ 3,399	\$60,546
Real estate expenses	8,452	8,694	5,220	1,078	1,146	24,590
Net operating income	\$9,948	\$ 9,847	\$ 11,390	\$ 2,518	\$ 2,253	35,956
Depreciation/amortization						(15,183)
Administrative, advisory and trustee services						(1,659 )
Other expenses						(359 )
Interest expense						(16,411)
Interest and other income						279
Income from continuing operations						2,623
Loss from discontinued operations						(102 )
Net income						\$2,521

Nine Months Ended January 31, 2013	(in thousands)					Total
	Multi-Family Residential	Commercial-Office	Commercial-Medical	Commercial-Industrial	Commercial-Retail	
Real estate revenue	\$67,381	\$ 57,105	\$ 47,051	\$ 10,890	\$ 10,733	\$193,160
Real estate expenses	28,646	28,081	12,395	3,050	3,848	76,020
Gain on involuntary conversion	2,263	0	0	0	0	2,263
Net operating income	\$40,998	\$ 29,024	\$ 34,656	\$ 7,840	\$ 6,885	119,403
Depreciation/amortization						(49,028 )
Administrative, advisory and trustee services						(6,402 )
Other expenses						(1,496 )
Interest expense						(48,448 )
Interest and other income						600
Income from continuing operations						14,629
Income from discontinued operations						3,530
Net income						\$18,159

Nine Months Ended January 31, 2012	(in thousands)					Total
	Multi-Family Residential	Commercial-Office	Commercial-Medical	Commercial-Industrial	Commercial-Retail	
Real estate revenue	\$53,441	\$ 55,723	\$ 50,299	\$ 10,597	\$ 9,850	\$179,910
Real estate expenses	25,124	26,451	16,709	3,178	3,297	74,759
Net operating income	\$28,317	\$ 29,272	\$ 33,590	\$ 7,419	\$ 6,553	105,151
Depreciation/amortization						(44,865 )
Administrative, advisory and trustee services						(5,944 )
Other expenses						(1,509 )
Interest expense						(48,389 )
Interest and other income						645
Income from continuing operations						5,089
Income from discontinued operations						496
Net income						\$5,585



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## Segment Assets and Accumulated Depreciation

Segment assets are summarized as follows as of January 31, 2013, and April 30, 2012, along with reconciliations to the condensed consolidated financial statements:

	(in thousands)					
As of January 31, 2013	Multi-Family- Residential	Commercial- Office	Commercial- Medical	Commercial- Industrial	Commercial- Retail	Total
Segment Assets						
Property owned	\$626,763	\$ 611,174	\$ 513,565	\$ 125,431	\$ 130,899	\$2,007,832
Less accumulated depreciation	(135,673)	(133,861 )	(89,542 )	(22,890 )	(26,434 )	(408,400 )
Net property owned	\$491,090	\$ 477,313	\$ 424,023	\$ 102,541	\$ 104,465	1,599,432
Real estate held for sale						733
Cash and cash equivalents						62,302
Other investments						638
Receivables and other assets						113,963
Development in progress						20,127
Unimproved land						18,879
Total assets						\$1,816,074

	(in thousands)					
As of April 30, 2012	Multi-Family- Residential	Commercial- Office	Commercial- Medical	Commercial- Industrial	Commercial- Retail	Total
Segment assets						
Property owned	\$539,783	\$ 605,318	\$ 500,268	\$ 119,002	\$ 127,638	\$1,892,009
Less accumulated depreciation	(128,834)	(121,422 )	(78,744 )	(20,693 )	(23,797 )	(373,490 )
Net property owned	\$410,949	\$ 483,896	\$ 421,524	\$ 98,309	\$ 103,841	1,518,519
Real estate held for sale						2,067
Cash and cash equivalents						39,989
Other investments						634
Receivables and other assets						114,569
Development in progress						27,599
Unimproved land						10,990
Total assets						\$1,714,367

**NOTE 6 • COMMITMENTS AND CONTINGENCIES**

**Litigation.** The Company is not a party to any legal proceedings which are expected to have a material effect on the Company's liquidity, financial position, cash flows or results of operations. The Company is subject to a variety of legal actions for personal injury or property damage arising in the ordinary course of its business, most of which are covered by liability insurance. Various claims of resident discrimination are also periodically brought, most of which also are covered by insurance. While the resolution of these matters cannot be predicted with certainty, management believes that the final outcome of such legal proceedings and claims will not have a material effect on the Company's liquidity, financial position, cash flows or results of operations.

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

**Purchase Options.** The Company has granted options to purchase certain IRET properties to tenants in these properties, under lease agreements. In general, the options grant the tenant the right to purchase the property at the greater of such property's appraised value or an annual compounded increase of a specified percentage of the initial cost of the property to IRET. As of January 31, 2013, the total property cost of the 17 properties subject to purchase options was approximately \$126.9 million, and the total gross rental revenue from these properties was approximately

\$7.9 million for the nine months ended January 31, 2013.

Environmental Matters. Under various federal, state and local laws, ordinances and regulations, a current or previous owner or operator of real estate may be liable for the costs of removal of, or remediation of, certain hazardous or toxic substances in, on, around or under the property. While IRET currently has no knowledge of any material violation of environmental laws,

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ordinances or regulations at any of its properties, there can be no assurance that areas of contamination will not be identified at any of the Company's properties, or that changes in environmental laws, regulations or cleanup requirements would not result in material costs to the Company.

**Restrictions on Taxable Dispositions.** Approximately 111 of IRET's properties, consisting of approximately 6.2 million square feet of the Company's combined commercial segments' properties and 4,509 apartment units, are subject to restrictions on taxable dispositions under agreements entered into with some of the sellers or contributors of the properties. The real estate investment amount of these properties (net of accumulated depreciation) was approximately \$830.7 million at January 31, 2013. The restrictions on taxable dispositions are effective for varying periods. The terms of these agreements generally prevent the Company from selling the properties in taxable transactions. The Company does not believe that the agreements materially affect the conduct of the Company's business or decisions whether to dispose of restricted properties during the restriction period because the Company generally holds these and the Company's other properties for investment purposes, rather than for sale. Historically, however, where IRET has deemed it to be in the shareholders' best interests to dispose of restricted properties, it has done so through transactions structured as tax-deferred transactions under Section 1031 of the Internal Revenue Code.

**Redemption Value of UPREIT Units.** The limited partnership units ("UPREIT Units") of the Company's operating partnership, IRET Properties, are redeemable at the option of the holder for cash, or, at our option, for the Company's common shares of beneficial interest on a one-for-one basis, after a minimum one-year holding period. All UPREIT Units receive the same cash distributions as those paid on common shares. UPREIT Units are redeemable for an amount of cash per Unit equal to the average of the daily market price of an IRET common share for the ten consecutive trading days immediately preceding the date of valuation of the Unit. As of January 31, 2013 and 2012, the aggregate redemption value of the then-outstanding UPREIT Units of the operating partnership owned by limited partners was approximately \$198.9 million and \$144.7 million, respectively.

**Joint Venture Buy/Sell Options.** Certain of IRET's joint venture agreements contain buy/sell options in which each party under certain circumstances has the option to acquire the interest of the other party, but do not generally require that the Company buy its partners' interests. The Company has no joint ventures in which its joint venture partner can require the Company to buy the partner's interest.

**Tenant Improvements.** In entering into leases with tenants, IRET may commit itself to fund improvements or build-outs of the rented space to suit tenant requirements. These tenant improvements are typically funded at the beginning of the lease term, and IRET is accordingly exposed to some risk of loss if a tenant defaults prior to the expiration of the lease term, and the rental income that was expected to cover the cost of the tenant improvements is not received. As of January 31, 2013, the Company is committed to fund approximately \$10.4 million in tenant improvements, within approximately the next 12 months.

**Development, Expansion and Renovation Projects.** As of January 31, 2013, the Company had several development, expansion and renovation projects underway or recently completed, the costs for which have been capitalized, as follows:

**Multi-Family Conversion, Minot, North Dakota:** The Company is converting an existing approximately 15,000 square foot commercial office building in Minot, North Dakota to a 20-unit multi-family residential property, for an estimated total cost of \$3.0 million and a projected completion date in the fourth quarter of fiscal year 2013. As of January 31, 2013, the Company had incurred approximately \$2.6 million of these project costs.

**Senior Housing Memory Care and Assisted Living Units, Laramie, Wyoming:** During the third quarter of fiscal year 2013, the Company substantially completed construction of an additional 29 assisted living units at its existing 48-unit Spring Wind senior housing facility in Laramie, Wyoming, and the conversion of an existing 16 units at the facility to memory care units, for a total of 61 assisted living units and 16 memory care units. The Company estimates that the construction costs for this expansion project will total approximately \$3.8 million. As of January 31, 2013, the Company had incurred approximately \$3.6 million of these project costs.

**Minot IPS, Minot, North Dakota:** During the second quarter of fiscal year 2012, the Company entered into a 10-year, fully net lease with a provider of production enhancement services to the oil and gas industry, to construct and then lease an approximately 28,000 square foot industrial building to be located in Minot, North Dakota on an approximately 9.6-acre parcel of vacant land. The project was substantially completed in the third quarter of fiscal year 2013 with total construction costs at January 31, 2013 of approximately \$6.0 million (including the cost of the

land).

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Jamestown Medical Office Building, Jamestown, North Dakota: During the fourth quarter of fiscal year 2012, the Company formed a joint venture to construct a one-story, approximately 45,000 square foot medical office building on an approximately 4.9 acre parcel of land adjacent to the Jamestown Regional Medical Center campus in Jamestown, North Dakota, for a total project cost estimated at \$9.2 million. The land on which the project is being built is held by the joint venture entity under a pre-paid ground lease with an initial term of 79 years and two 10-year renewals. The Company is the majority member of the joint venture, with a 51% interest, and the Company consolidates the joint venture's results in its financial statements; the remaining interest is held by the Company's joint venture partner, a Minnesota limited liability company formed by the principal in a medical leasing and development firm based in Minneapolis, Minnesota. The Company's cash contribution to the project is expected to be approximately \$1.5 million, with the remainder of the project cost being provided by the Company's joint venture partner and from the proceeds of the joint venture entity's \$6.2 million construction loan with Wells Fargo bank. As of January 31, 2013, the joint venture entity had incurred approximately \$6.3 million of the total estimated project costs. Construction of the medical office building was substantially completed in the third quarter of fiscal year 2013.

Branch Bank Building, Minot, North Dakota: During the first quarter of fiscal year 2013, the Company entered into an agreement with First International Bank and Trust, Watford City, North Dakota (First International) to construct an approximately 3,700 square-foot building on an outlot of the Company's Arrowhead Shopping Center in Minot, North Dakota, to be leased by First International under a 20-year lease for use as a branch bank location. The total cost of the project is estimated to be approximately \$1.7 million, and the building is currently expected to be completed in the fourth quarter of fiscal year 2013. As of January 31, 2013, the Company had incurred approximately \$1.1 million of these estimated project costs. Stephen Stenehjelm, a member of the Company's Board of Trustees, is the President and Chairman of First International, and accordingly this transaction was reviewed and approved by the Company's Audit Committee under the Company's related party transactions approval policy, and by the Company's independent trustees.

River Ridge Apartment Homes, Bismarck, ND: During the second quarter of fiscal year 2013, the Company began construction of its 146-unit River Ridge Apartments project in Bismarck, North Dakota. River Ridge is located near IRET's Cottonwood Apartments in Bismarck, and will offer amenities including a pool, exercise facility and underground parking. The Company estimates that the total cost to construct the project will be approximately \$24.2 million. Completion of the project is currently expected in the second quarter of the Company's fiscal year 2014. As of January 31, 2013, the Company had incurred approximately \$5.9 million of the total estimated project costs.

Cypress Court Apartment Homes, St. Cloud, Minnesota: In August 2012, the Company entered into a joint venture agreement with a real estate development and contracting company in St. Cloud, Minnesota, to construct a two-building, 132-unit multi-family residential property in St. Cloud, Minnesota, for an estimated total project cost of \$14.3 million. The Company owns approximately 79% of the joint venture entity, and the Company consolidates the joint venture's results in its financial statements; the remaining approximately 21% interest is owned by its joint venture partner. Completion of the apartment project is currently expected in second quarter of the Company's fiscal year 2014. As of January 31, 2013, the Company had incurred approximately \$4.5 million of the total estimated project costs.

Southgate Apartments, Minot, North Dakota: In January 2013, the Company entered into a joint venture agreement to construct an apartment project in Minot, North Dakota. The Company owns approximately 51% of the joint venture entity, and the Company consolidates the joint venture's results in its financial statements; the remaining approximately 49% of the joint venture entity is owned by its joint venture partner. The project is expected to be completed in two phases, with a total of approximately 341 units. Phase I, the Landing at Southgate, consists of three approximately 36-unit buildings, and is expected to be completed in September 2013. Phase II, the Commons at Southgate, is currently expected to consist of an approximately 233-unit building to be completed in the spring of 2014. IRET currently estimates total costs for both phases of the project at \$52.2 million. The development is located near IRET's Plaza 16 property (formerly IRET Corporate Plaza) in southwest Minot.

Construction interest capitalized for the three month periods ended January 31, 2013 and 2012, respectively, was approximately \$157,000 and \$116,000 for development projects completed and in progress. Construction interest capitalized for the nine month periods ended January 31, 2013 and 2012, respectively, was approximately \$438,000

and \$230,000 for development projects completed and in progress.

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The Company reports in discontinued operations the results of operations of a property that has either been disposed of or is classified as held for sale. The Company also reports any gains or losses from the sale of a property in discontinued operations. IRET sold a multi-family residential property in the third quarter of fiscal year 2013. During the second quarter of fiscal year 2013, IRET sold two condominium units and 2 multi-family residential properties. During the first quarter of fiscal year 2013, IRET sold two condominium units and a commercial retail property. During the first and third quarters of fiscal year 2012, the Company had no real estate dispositions. During the second quarter of fiscal year 2012, the Company sold a retail property. See Note 8 for additional information on the properties sold during the nine months ended January 31, 2013 and 2012. Four condominium units were classified as held for sale at January 31, 2013. There were no properties classified as held for sale at January 31, 2012. The following information shows the effect on net income and the gains or losses from the sale of properties classified as discontinued operations for the three and nine months ended January 31, 2013 and 2012:

	Three Months Ended January 31 (in thousands)		Nine Months Ended January 31	
	2013	2012	2013	2012
<b>REVENUE</b>				
Real estate rentals	\$27	\$459	\$778	\$1,375
Tenant reimbursement	0	18	0	54
<b>TOTAL REVENUE</b>	<b>27</b>	<b>477</b>	<b>778</b>	<b>1,429</b>
<b>EXPENSES</b>				
Depreciation/amortization related to real estate investments	0	79	114	248
Utilities	4	69	67	175
Maintenance	5	57	132	194
Real estate taxes	3	56	78	154
Insurance	1	14	24	38
Property management expenses	6	63	118	207
Impairment of real estate investments	0	135	0	135
<b>TOTAL EXPENSES</b>	<b>19</b>	<b>473</b>	<b>533</b>	<b>1,151</b>
Operating income	8	4	245	278
Interest expense	(6 )	(122)	(169 )	(387 )
Other income	2	16	2	16
Income (loss) from discontinued operations before gain on sale	4	(102)	78	(93 )
Gain on sale of discontinued operations	772	0	3,452	589
<b>INCOME (LOSS) FROM DISCONTINUED OPERATIONS</b>	<b>\$776</b>	<b>\$(102)</b>	<b>\$3,530</b>	<b>\$496</b>

**NOTE 8 • ACQUISITIONS AND DISPOSITIONS****PROPERTY ACQUISITIONS**

During the third quarter of fiscal year 2013, the Company closed on its acquisitions of:

- two parcels of vacant land in Rochester, Minnesota, acquired for possible future development, of approximately 20.1 acres and 3.8 acres, respectively, for purchase prices of \$775,000 and \$275,000, paid in cash;
- an approximately 48.4 acre parcel of vacant land in Grand Forks, North Dakota, acquired for possible future development, for a purchase price of approximately \$4.3 million, of which approximately \$2.3 million was paid in cash and the remainder in limited partnership units of the Operating Partnership valued at \$2.0 million;
- an approximately 51% interest in a joint venture entity currently constructing the Southgate Apartments project in Minot, North Dakota, which project is expected to be completed in two phases, with a total of approximately 341 units, for a currently-estimated total cost of \$52.2 million; and

a parcel of vacant land in Minot, North Dakota, acquired for possible future development for a purchase price of approximately \$1.9 million; the approximately 2.2 acre parcel is adjacent to the Southgate multi-family residential project currently under development.

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During the second quarter of fiscal year 2013, the Company closed on its acquisitions of:

a 58-unit multi-family residential property in Sartell, Minnesota (The Ponds at Heritage Place), on approximately 6.5 acres of land, for a purchase price of approximately \$5.0 million, of which \$3.3 million was paid in cash and the remainder in limited partnership units of the Operating Partnership valued at \$1.7 million;

an approximately 2.6 acre parcel of vacant land in Williston, North Dakota, acquired for possible future development, for a purchase price of approximately \$822,500, paid in cash; and

an approximately 3.8 acre parcel of vacant land in St. Cloud, Minnesota, acquired for possible future development for a purchase price of approximately \$447,000, paid in cash.

During the first quarter of fiscal year 2013, the Company closed on its acquisitions of:

a 308-unit multi-family residential property in Topeka, Kansas, on approximately 18.3 acres of land, for a purchase price of approximately \$17.7 million, of which \$5.2 million was paid in cash with assumed debt of \$12.5 million;

a 232-unit multi-family residential property in Lincoln, Nebraska, on approximately 14.7 acres of land, for a purchase price of approximately \$17.5 million, of which \$14.2 million was paid in cash and the remainder in limited partnership units of the Operating Partnership valued at \$3.3 million; and

a 208-unit multi-family residential property in Lincoln, Nebraska, on approximately 11.5 acres of land, for a purchase price of approximately \$17.3 million, of which \$13.8 million was paid in cash and the remainder in limited partnership units of the Operating Partnership valued at \$3.5 million.

During the third quarter of fiscal year 2013, the Company placed in service an additional 29 assisted living units, and completed the conversion of 16 existing units to memory care units, at the Company's Spring Wind senior housing facility in Laramie Wyoming; completed an approximately 45,000 square foot medical office building in Jamestown, North Dakota; and completed an approximately 28,000 square foot industrial building in Minot, North Dakota. The Company had no development projects placed in service during the second quarter of fiscal year 2013. During the first quarter of fiscal year 2013, the Company placed in service its 159-unit Quarry Ridge Apartment Homes development in Rochester, Minnesota, and placed in service buildings 3 and 4 (totaling 73 units) of its four-building, 145-unit Williston Gardens multi-family residential development in Williston, North Dakota. The Company is the majority member of the joint venture entity that owns the Williston Gardens development, with a 60% interest.

During the third quarter of fiscal year 2012, the Company closed on its acquisition of a multi-family residential property in Isanti, Minnesota and an adjoining parcel of vacant land. Also during the third quarter of fiscal year 2012, the Company substantially completed construction of an additional approximately 28 assisted living units and 16 memory care units at its existing Meadow Wind senior housing facility in Casper, Wyoming. During the second quarter of fiscal year 2012, the Company closed on the following acquisitions: a medical office property in Edina, Minnesota; two multi-family residential properties in Sioux Falls, South Dakota; seven senior housing projects in Boise, Idaho and towns surrounding Boise; a multi-family residential property in St. Cloud, Minnesota; and two parcels of vacant land, in Minot, North Dakota and Casper, Wyoming, respectively; the Company also placed in-service during the second quarter of fiscal year 2012 an approximately 25,000 square foot medical clinic in Minot, North Dakota. During the first quarter of fiscal year 2012, the Company substantially completed construction of a six-screen movie theater at its existing Buffalo Mall property in Jamestown, North Dakota, for a total cost of \$2.2 million. The Company had no acquisitions during the first quarter of fiscal year 2012.

The Company expensed approximately \$125,000 and \$466,000 of transaction costs related to acquisitions in the nine months ended January 31, 2013 and 2012, respectively. The Company's acquisitions and development projects placed in service during the nine months ended January 31, 2013 and 2012 are detailed below:

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Nine Months Ended January 31, 2013

Acquisitions	Date Acquired	(in thousands)			
		Land	Building	Intangible Assets	Acquisition Cost
<b>Multi-Family Residential</b>					
308 unit - Villa West - Topeka, KS	5/8/12	\$ 1,590	\$ 15,760	\$ 300	\$ 17,650
232 unit - Colony - Lincoln, NE	6/4/12	1,515	15,731	254	17,500
208 unit - Lakeside Village - Lincoln, NE	6/4/12	1,215	15,837	198	17,250
58 unit - The Ponds at Heritage Place - Sartell, MN	10/10/12	395	4,564	61	5,020
		4,715	51,892	813	57,420
<b>Unimproved Land</b>					
University Commons - Williston, ND	8/1/12	823	0	0	823
Cypress Court Unimproved - St. Cloud, MN	8/10/12	447	0	0	447
Cypress Court Apartment Development - St. Cloud, MN <sup>(1)</sup>	8/10/12	1,136	0	0	1,136
Badger Hills - Rochester, MN <sup>(2)</sup>	12/14/12	1,050	0	0	1,050
Grand Forks Unimproved - Grand Forks, ND	12/31/12	4,278	0	0	4,278
Minot Unimproved (Southgate Lot 4) - Minot, ND	1/11/13	1,882	0	0	1,882
Commons at Southgate - Minot, ND <sup>(3)</sup>	1/22/13	3,691	0	0	3,691
Landing at Southgate - Minot, ND <sup>(3)</sup>	1/22/13	2,262	0	0	2,262
		15,569	0	0	15,569
<b>Total Property Acquisitions</b>		<b>\$20,284</b>	<b>\$51,892</b>	<b>\$ 813</b>	<b>\$ 72,989</b>

(1) Land is owned by a joint venture in which the Company has an approximately 79% interest.

(2) Acquisition of unimproved land consisted of two parcels acquired separately on December 14 and December 20, 2012, respectively.

(3) Land is owned by a joint venture entity in which the Company has an approximately 51% interest.

Development Projects Placed in Service	Date Placed in Service	(in thousands)			
		Land	Building	Intangible Assets	Acquisition Cost
<b>Multi-Family Residential</b>					
159 unit - Quarry Ridge II - Rochester, MN <sup>(1)</sup>	6/29/12	\$ 0	\$ 4,591	\$ 0	\$ 4,591
73 unit - Williston Garden Buildings 3 and 4 - Williston, ND <sup>(2)</sup>	7/31/12	0	7,058	0	7,058
		0	11,649	0	11,649
<b>Commercial Medical</b>					
26,662 sq ft Spring Wind Expansion - Laramie, WY <sup>(3)</sup>	11/16/12	0	1,675	0	1,675
45,222 sq ft Jamestown Medical Office Building - Jamestown, ND <sup>(4)</sup>	1/1/13	0	4,901	0	4,901
		0	6,576	0	6,576
<b>Commercial Industrial</b>					
27,567 sq ft Minot IPS - Minot, ND <sup>(5)</sup>	12/17/12	0	3,953	0	3,953
<b>Total Development Projects Placed in Service</b>		<b>\$ 0</b>	<b>\$22,178</b>	<b>\$ 0</b>	<b>\$ 22,178</b>

(1) Development property placed in service June 29, 2012. Additional costs paid in fiscal years 2012 and 2011, and land acquired in fiscal year 2007, totaled \$13.0 million, for a total project cost at January 31, 2013 of \$17.6 million.

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Development property placed in service July 31, 2012. Buildings 1 and 2 were placed in service in fiscal year (2) 2012. Additional costs paid in fiscal year 2012 totaled \$12.0 million, for a total project cost at January 31, 2013 of \$19.1 million.

(3) Expansion project placed in service November 16, 2012. Additional costs paid in fiscal year 2012 totaled \$1.8 million, for a total project cost at January 31, 2013 of \$3.5 million.

(4) Development property placed in service January 1, 2013. Additional costs paid in fiscal year 2012 totaled \$1.0 million, for a total project cost at January 31, 2013 of \$5.9 million.

(5) Development property placed in service December 17, 2012. Additional costs paid in fiscal year 2012 totaled \$1.8 million, for a total project cost at January 31, 2013 of \$5.8 million.

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Nine Months Ended January 31, 2012

Acquisitions	Date Acquired	(in thousands)			Acquisition Cost
		Land	Building	Intangible Assets	
<b>Multi-Family Residential</b>					
147 unit - Regency Park Estates - St. Cloud, MN	8/1/11	\$702	\$10,198	\$ 0	\$ 10,900
50 unit - Cottage West Twin Homes - Sioux Falls, SD	10/12/11	968	3,762	0	4,730
24 unit - Gables Townhomes - Sioux Falls, SD	10/12/11	349	1,921	0	2,270
36 unit - Evergreen II - Isanti, MN	11/1/11	701	2,774	0	3,475
		2,720	18,655	0	21,375
<b>Commercial Medical</b>					
17,273 sq ft Spring Creek American Falls - American Falls, ID	9/1/11	137	3,409	524	4,070
15,571 sq ft Spring Creek Soda Springs - Soda Springs, ID	9/1/11	66	2,122	42	2,230
15,559 sq ft Spring Creek Eagle - Eagle, ID	9/1/11	250	3,191	659	4,100
31,820 sq ft Spring Creek Meridian - Meridian, ID	9/1/11	428	5,499	1,323	7,250
26,605 sq ft Spring Creek Overland - Boise, ID	9/1/11	656	5,001	1,068	6,725
16,311 sq ft Spring Creek Boise - Boise, ID	9/1/11	711	4,236	128	5,075
26,605 sq ft Spring Creek Ustick - Meridian, ID	9/1/11	467	3,833	0	4,300
Meadow Wind Land - Casper, WY	9/1/11	50	0	0	50
3,431 sq ft Edina 6525 Drew Ave S - Edina, MN	10/13/11	388	117	0	505
		3,153	27,408	3,744	34,305
<b>Unimproved Land</b>					
Minot IPS - Minot, ND	9/7/11	416	0	0	416
<b>Total Property Acquisitions</b>		<b>\$6,289</b>	<b>\$46,063</b>	<b>\$ 3,744</b>	<b>\$ 56,096</b>

Development Projects Placed in Service	Date Placed in Service	(in thousands)			Acquisition Cost
		Land	Building	Intangible Assets	
<b>Commercial Medical</b>					
24,795 sq ft Trinity at Plaza 16 - Minot, ND <sup>(1)</sup>	9/23/11	\$0	\$5,562	\$ 0	\$ 5,562
22,193 sq ft Meadow Winds Addition - Casper, WY <sup>(2)</sup>	12/30/11	0	3,840	0	3,840
		0	9,402	0	9,402
<b>Commercial Retail</b>					
19,037 sq ft Jamestown Buffalo Mall - Jamestown, ND <sup>(3)</sup>	6/15/11	0	822	0	822
<b>Total Development Projects Placed in Service</b>		<b>\$0</b>	<b>\$10,224</b>	<b>\$ 0</b>	<b>\$ 10,224</b>

(1) Development property placed in service September 23, 2011. Additional costs paid in fiscal year 2011 totaled \$3.3 million, for a total project cost at January 31, 2012 of \$8.8 million.

(2) Expansion project placed in service December 30, 2011.

(3)

Construction project placed in service June 15, 2011. Additional costs paid in fiscal year 2011 totaled \$1.4 million, for a total project cost at January 31, 2012 of \$2.3 million.

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Acquisitions in the nine months ended January 31, 2013 and 2012 are immaterial to our real estate portfolio both individually and in the aggregate, and consequently no proforma information is presented. The results of operations from acquired properties are included in the Condensed Consolidated Statements of Operations as of their acquisition date. The revenue and net income of our acquisitions in the nine months ended January 31, 2013 and 2012, respectively, (excluding development projects placed in service) are detailed below.

(in thousands)

Nine Months

Ended

January 31

2013 2012

Total revenue \$4,669 \$2,383

Net (loss) income \$(116 ) \$454

**PROPERTY DISPOSITIONS**

During the third quarter of fiscal year 2013, the Company sold a multi-family residential property in Fargo, North Dakota, for a sale price of approximately \$2.0 million. Mortgage debt in the amount of approximately \$1.2 million was assumed by the buyer. During the second quarter of fiscal year 2013, the Company sold two condominium units and two-multi-family residential properties for a total sales price of \$7.3 million. Mortgage debt in the amount of \$4.6 million on the two multi-family residential properties was assumed by the buyer. During the first quarter of fiscal year 2013, IRET sold two condominium units and a commercial retail property.

The Company had no real estate dispositions in the third quarter of fiscal year 2012. During the second quarter of fiscal year 2012, the Company sold a small retail property in Livingston, Montana, for a sale price of approximately \$2.2 million, with approximately \$1.2 million of the sale proceeds applied to pay off the outstanding mortgage loan balance on the property. The Company had no real estate dispositions in the first quarter of fiscal year 2012. The following table details the Company's dispositions during the nine months ended January 31, 2013 and 2012:

Nine Months Ended January 31, 2013

(in thousands)

Dispositions	Date Disposed	Sales Price	Book Value and Sales Cost		Gain/(Loss)
			Book Value and Sales Cost	Gain/(Loss)	
<b>Multi-Family Residential</b>					
116 unit - Terrace on the Green - Fargo, ND	9/27/12	\$3,450	\$1,248	\$ 2,202	
85 unit - Prairiewood Meadows - Fargo, ND	9/27/12	3,450	2,846	604	
66 unit - Candlelight - Fargo, ND	11/27/12	1,950	1,178	772	
		8,850	5,272	3,578	
<b>Commercial Retail</b>					
16,080 sq ft Kentwood Thomasville - Kentwood, MI	6/20/12	625	692	(67 )	
<b>Other</b>					
Georgetown Square Condominiums 5 and 6	6/21/12	330	336	(6 )	
Georgetown Square Condominiums 3 and 4	8/2/12	368	421	(53 )	
		698	757	(59 )	
<b>Total Property Dispositions</b>		<b>\$10,173</b>	<b>\$6,721</b>	<b>\$ 3,452</b>	



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Nine Months Ended January 31, 2012

Dispositions	Date Disposed	Sales Price	(in thousands)	
			Book Value and Sales Cost	Gain/(Loss)

## Commercial Retail

41,200 sq ft Livingstone Pamida - Livingston, MT	8/1/11	\$2,175	\$1,586	\$ 589
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Total Property Dispositions		\$2,175	\$1,586	\$ 589
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## NOTE 9 • MORTGAGES PAYABLE AND LINE OF CREDIT

The Company's mortgages payable and revolving line of credit are collateralized by substantially all of its properties owned. The majority of the Company's mortgages payable are secured by individual properties or groups of properties, and are non-recourse to the Company, other than for standard carve-out obligations such as fraud, waste, failure to insure, environmental conditions and failure to pay real estate taxes. As of January 31, 2013, the management of the Company believes there are no defaults or material compliance issues in regard to any mortgages payable. Interest rates on mortgages payable range from 2.51% to 8.25%, and the mortgages have varying maturity dates from the current fiscal year through July 1, 2036.

Of the mortgages payable, the balances of fixed rate mortgages totaled \$1.0 billion at January 31, 2013 and April 30, 2012. The balances of variable rate mortgages totaled \$37.1 million and \$16.2 million as of January 31, 2013 and April 30, 2012, respectively. The Company does not utilize derivative financial instruments to mitigate its exposure to changes in market interest rates. Most of the fixed rate mortgages have substantial pre-payment penalties. As of January 31, 2013, the weighted average rate of interest on the Company's mortgage debt was 5.65%, compared to 5.78% on April 30, 2012. The aggregate amount of required future principal payments on mortgages payable as of January 31, 2013, is as follows:

Year ended April 30,	(in thousands)
2013 (remainder)	\$10,009
2014	64,524
2015	112,886
2016	92,221
2017	197,947
Thereafter	564,036
Total payments	\$1,041,623

The Company's revolving, multi-bank line of credit with First International Bank and Trust, Watford City, North Dakota, as lead bank, had, as of January 31, 2013, lending commitments of \$60.0 million. As of January 31, 2013, the line of credit was secured by mortgages on 23 properties; under the terms of the line of credit, properties may be added and removed from the collateral pool with the agreement of the lenders. Participants in this credit facility as of January 31, 2013 included, in addition to First International Bank, the following financial institutions: The Bank of North Dakota; First Western Bank and Trust; Dacotah Bank; United Community Bank; American State Bank & Trust Company and Town & Country Credit Union. The line of credit has a current interest rate of 5.15% and a minimum outstanding principal balance requirement of \$10.0 million, and as of January 31, 2013, the Company had borrowed \$10.0 million. The facility includes covenants and restrictions requiring the Company to achieve on a calendar quarter basis a debt service coverage ratio on borrowing base collateral of 1.25x in the aggregate and 1.00x on individual assets in the collateral pool, and the Company is also required to maintain minimum depository account(s) totaling \$6.0 million with First International, of which \$1.5 million is to be held in a non-interest bearing account. As of January 31, 2013, the Company believes it is in compliance with the facility covenants.

NOTE 10 • FAIR VALUE OF FINANCIAL INSTRUMENTS

ASC 820, Fair Value Measurement and Disclosures defines and establishes a framework for measuring fair value.

The objective of fair value is to determine the price that would be received upon the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (the exit price). ASC 820 establishes a fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three levels, as follows:

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Level 1: Quoted prices in active markets for identical assets

Level 2: Significant other observable inputs

Level 3: Significant unobservable inputs

There were no transfers in and out of Level 1, Level 2 and Level 3 fair value measurements during the nine months ended January 31, 2013 and 2012. Fair value estimates may be different than the amounts that may ultimately be realized upon sale or disposition of the assets and liabilities.

Fair Value Measurements on a Recurring Basis

The Company had no assets or liabilities recorded at fair value on a recurring basis at January 31, 2013 and April 30, 2012.

Fair Value Measurements on a Nonrecurring Basis

The Company had no assets or liabilities recorded at fair value on a nonrecurring basis at January 31, 2013 and April 30, 2012.

Financial Assets and Liabilities Not Measured at Fair Value

The following methods and assumptions were used to estimate the fair value of each class of financial assets and liabilities. The fair values of our financial instruments approximate their carrying amount in our consolidated financial statements except for debt.

Cash and Cash Equivalents. The carrying amount approximates fair value because of the short maturity.

Other Investments. The carrying amount, or cost plus accrued interest, of the certificates of deposit approximates fair value.

Other Debt. The fair value of other debt is estimated based on the discounted cash flows of the loan using current market rates, which are estimated based on recent financing transactions (Level 3).

Lines of Credit. The carrying amount approximates fair value because the variable rate debt re-prices frequently.

Mortgages Payable. For variable rate loans that re-price frequently, fair values are based on carrying values. The fair value of fixed rate loans is estimated based on the discounted cash flows of the loans using current market rates, which are estimated based on recent financing transactions (Level 3).

The estimated fair values of the Company's financial instruments as of January 31, 2013 and April 30, 2012, are as follows:

	(in thousands)			
	January 31, 2013		April 30, 2012	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>FINANCIAL ASSETS</b>				
Cash and cash equivalents	\$62,302	\$62,302	\$39,989	\$39,989
Other investments	638	638	634	634
<b>FINANCIAL LIABILITIES</b>				
Other debt	21,529	21,558	13,875	13,973
Line of credit	10,000	10,000	39,000	39,000
Mortgages payable	1,041,623	1,148,056	1,048,689	1,087,082

**NOTE 11 • REDEEMABLE NONCONTROLLING INTERESTS**

Redeemable noncontrolling interests on our Condensed Consolidated Balance Sheets represent the noncontrolling interest in a joint venture of the Company in which the Company's unaffiliated partner, at its election, could require the Company to buy its interest at a purchase price to be determined by an appraisal conducted in accordance with the terms of the agreement, or at a negotiated price. Redeemable noncontrolling interests are presented at the greater of their carrying amount or redemption value at the end of each reporting period. Changes in the value from period to period are charged to common shares of beneficial interest on our Condensed Consolidated Balance Sheets. The Company acquired its sole redeemable noncontrolling interest from its joint venture partner in the third quarter of fiscal year 2012, and, following this acquisition, currently has no redeemable noncontrolling interests in consolidated real estate entities. Below is a table reflecting the activity of the redeemable noncontrolling interests for the nine

months ended January 31, 2012.

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	(in thousands)
Balance at April 30, 2011	\$ 987
Net income	12
Distributions	(27 )
Mark-to-market adjustments	35
Acquisition of joint venture partner's interest	(1,007 )
Balance at January 31, 2012	\$ 0

**NOTE 12 • SUBSEQUENT EVENTS**

**Common and Preferred Share Distributions.** On March 6, 2013, the Company's Board of Trustees declared a regular quarterly distribution of 13.00 cents per share and unit on the Company's common shares of beneficial interest and the limited partnership units of IRET Properties, payable April 1, 2013, to shareholders and unitholders of record on March 18, 2013. Also on March 6, 2013, the Company's Board of Trustees declared a distribution of 51.56 cents per share on the Company's Series A preferred shares of beneficial interest, payable April 1, 2013 to Series A preferred shareholders of record on March 18, 2013, and declared a distribution of 49.68 cents per share on the Company's Series B preferred shares of beneficial interest, payable April 1, 2013 to Series B preferred shareholders of record on March 18, 2013.

**Pending Acquisitions.** The Company has signed purchase agreements to acquire the following properties:

- a nine-building, 336-unit multi-family residential property in Omaha, Nebraska, on approximately 18.5 acres of land, for a purchase price of approximately \$28.3 million, to be paid in cash;

- a 71-unit multi-family residential property in Rapid City, South Dakota, on approximately 3.5 acres, for a purchase price totaling \$6.2 million, of which approximately \$2.8 million would be paid in cash, with the remainder paid in limited partnership units of the Operating Partnership valued at approximately \$3.4 million;

- an approximately 18.2 acre parcel of land in Bismarck, North Dakota, for a purchase price of \$3.3 million, to be paid in cash; the purchase includes an existing approximately 16,844 square foot community center that is expected to be incorporated into the multi-family residential development project the Company currently plans for this parcel;

- an approximately 10-acre parcel of vacant land in Grand Forks, North Dakota, for a purchase price of \$1.6 million, to be paid in cash; and

- an approximately 0.7 acre parcel of vacant land in Minot, North Dakota, adjacent to the Company's Chateau Apartments property, for a purchase price of approximately \$172,000, to be paid in cash.

These pending acquisitions are subject to various closing conditions and contingencies, and no assurances can be given that any of these transactions will be completed on the terms currently proposed, or at all.

**Development Project.** Subsequent to the end of the third quarter of fiscal year 2013, the Company entered into a joint venture agreement to construct a multi-family residential project in Williston, North Dakota. The Company's joint venture partner in this proposed project is also the Company's partner in the Company's Williston Garden Apartments project. The Company will own approximately 70% of the project, subject to final project costs. The project is expected to consist of five buildings with approximately 288 units in total, for an expected total cost of \$62.4 million. Construction is expected to commence in March 2013, with expected completion in September 2014. The project site is approximately 14.5 acres of an approximately 40-acre parcel of land purchased in April 2012. This proposed development project is subject to various contingencies, and no assurances can be given that the project will be completed in the time frame or on the terms currently proposed, or at all.

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

The following discussion and analysis should be read in conjunction with the unaudited condensed consolidated financial statements included in this report, as well as the Company's audited financial statements for the fiscal year ended April 30, 2012, which are included in the Company's Form 10-K filed with the SEC on July 16, 2012, as amended by the Current Report on Form 8-K filed with the SEC on December 10, 2012.

**Forward Looking Statements.** Certain matters included in this discussion are forward looking statements within the meaning of the federal securities laws. Although we believe that the expectations reflected in the following statements

are based on reasonable assumptions, we can give no assurance that the expectations expressed will actually be achieved. Many factors may

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cause actual results to differ materially from our current expectations, including general economic conditions, local real estate conditions, the general level of interest rates and the availability of financing and various other economic risks inherent in the business of owning and operating investment real estate.

### Overview

This Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is provided in addition to the accompanying condensed consolidated financial statements and notes to assist readers in understanding our results of operations and financial condition. This overview provides a discussion of our business, an overview of our operating results in the three and nine months ended January 31, 2013 compared to the three and nine months ended January 31, 2012, and a summary of significant transactions in the third quarter of fiscal year 2013 compared to the third quarter of fiscal year 2012. This MD&A also includes, in the Results of Operations subsection below, a discussion of our financial results comparing the three and nine months ended January 31, 2013 and the three and nine months ended January 31, 2012, and, in the Liquidity and Capital Resources subsection below, a discussion of our financial condition and an analysis of changes in our capital structure and cash flows.

Business. IRET is a self-advised equity REIT engaged in owning and operating income-producing real estate properties. Our investments include multi-family residential properties and commercial office, commercial medical, commercial industrial and commercial retail properties located primarily in the upper Midwest states of Minnesota and North Dakota. Our properties are diversified by type and location. As of January 31, 2013, our real estate portfolio consisted of 85 multi-family residential properties containing 9,924 apartment units and having a total real estate investment amount net of accumulated depreciation of \$491.1 million, and 184 commercial properties containing approximately 12.4 million square feet of leasable space. Our commercial properties consist of:

- 68 commercial office properties containing approximately 5.1 million square feet of leasable space and having a total real estate investment amount net of accumulated depreciation of \$477.3 million;
- 66 commercial medical properties (including senior housing) containing approximately 3.0 million square feet of leasable space and having a total real estate investment amount net of accumulated depreciation of \$424.0 million;
- 20 commercial industrial properties containing approximately 2.9 million square feet of leasable space and having a total real estate investment amount net of accumulated depreciation of \$102.5 million; and
- 30 commercial retail properties containing approximately 1.4 million square feet of leasable space and having a total real estate investment amount net of accumulated depreciation of \$104.5 million.

Our primary source of income and cash is rents associated with multi-family residential and commercial leases. Our business objective is to increase shareholder value by employing a disciplined investment strategy. This strategy is focused on growing assets in desired geographical markets, achieving diversification by property type and location, and adhering to targeted returns in acquiring properties. We intend to continue to achieve our business objective by investing in multi-family residential properties and in commercial office, commercial medical, commercial industrial, and commercial retail properties that are leased to single or multiple tenants, usually for five years or longer, and are located throughout the upper Midwest. We operate mainly within the states of North Dakota and Minnesota, although we also have real estate investments in Colorado, Idaho, Iowa, Kansas, Missouri, Montana, Nebraska, South Dakota, Wisconsin and Wyoming.

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

Operating Results. In the three months ended January 31, 2013 compared to the same period of the prior year, NOI increased in all segments, with physical occupancy levels also increasing slightly in all segments. Our multi-family residential portfolio continued in this quarter to be our strongest-performing segment in terms of revenue; high levels of occupancy in this segment have permitted us to implement selected rental increases. While results in our commercial office segment were stable in this quarter and consistent with results achieved in this segment over the past several quarters, occupancy levels in the commercial office segment in particular remain challenging for us, with any significant improvement requiring a sustained and robust economic recovery that increases demand for commercial office space. Any significant increase in leasing activity at our commercial properties, however, will

require significant cash outlays for the payment of tenant improvements and leasing commissions. The Company's results of operations in the three and nine months ended January 31, 2013 and 2012 were as follows:

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(in thousands, except percentages)

Three Months Ended January 31

			\$	%	
	2013	2012	Change	Change	
Real estate revenue	\$66,231	\$60,546	\$5,685	9.4	%
NOI <sup>(1)</sup>	39,856	35,956	3,900	10.8	%
Net income attributable to Investors Real Estate Trust	5,324	2,127	3,197	150.3	%
FFO <sup>(2)</sup>	18,492	17,199	1,293	7.5	%

(in thousands, except percentages)

Nine Months Ended January 31

			\$	%	
	2013	2012	Change	Change	
Real estate revenue	\$193,160	\$179,910	\$13,250	7.4	%
NOI <sup>(1)</sup>	119,403	105,151	14,252	13.6	%
Net income attributable to Investors Real Estate Trust	15,515	4,833	10,682	221.0	%
FFO <sup>(2)</sup>	56,781	48,215	8,566	17.8	%

(1) See Note 5 of the Notes to the Condensed Consolidated Financial Statements for reconciliations of NOI to net income.

(2) See pages 44-45 of the MD&A for the definition of FFO and reconciliations of FFO to net income.

Physical occupancy as of January 31, 2013 compared to January 31, 2012 increased slightly in all of our five reportable segments, on a stabilized basis and an all-property basis. Stabilized properties are properties owned and in operation for the entirety of the periods being compared (including properties that were redeveloped or expanded during the periods being compared, with properties purchased or sold during the periods being compared excluded from the stabilized property category), and, in the case of development or re-development properties, which have achieved a target level of occupancy.

Physical Occupancy Levels on a Stabilized Property<sup>(1)</sup> and All Property Basis:

Segments	Stabilized Properties		All Properties	
	As of January 31, 2013	As of January 31, 2012	As of January 31, 2013	As of January 31, 2012
Multi-Family Residential	94.0%	93.9%	93.6%	93.2%
Commercial Office	78.4%	77.9%	78.4%	77.9%
Commercial Medical	94.6%	94.2%	94.9%	94.5%
Commercial Industrial	95.8%	94.5%	95.9%	94.5%
Commercial Retail	87.9%	87.5%	87.9%	87.5%

(1) See page 30 of the MD&A for the definition of Stabilized Property.

Significant Events and Transactions during the Three Months Ended January 31, 2013 and 2012. Summarized below are the Company's significant transactions and events during the third quarters of fiscal years 2013 and 2012:

Three Months Ended January 31, 2013

The transfer to the New York Stock Exchange from the NASDAQ Global Select Market of the listing of the Company's common shares of beneficial interest and Series A preferred shares of beneficial interest, effective as of December 18, 2012;

The acquisition of two parcels of vacant land in Rochester, Minnesota, for possible future development, for purchase prices of \$775,000 and \$275,000, respectively;

The acquisition of a parcel of vacant land in Grand Forks, North Dakota, for possible future development, for a purchase price of approximately \$4.3 million, of which approximately \$2.3 million was paid in cash and the remainder in limited partnership units of the Operating Partnership valued at \$2.0 million;

The acquisition of an approximately 51% interest in a joint venture entity currently constructing the Southgate Apartments project in Minot, North Dakota, which project is expected to be completed in two phases, with a total of approximately 341 units, for a currently-estimated total cost of \$52.2 million;

The substantial completion of three development projects placed in service during the quarter: completion of an additional 29 assisted living units, and the conversion of an existing 16 units to memory care units, at the Company's Spring Wind senior housing facility in Laramie Wyoming; the completion of an approximately 45,000 square foot medical office building in Jamestown, North Dakota; and the completion of an approximately 28,000 square foot industrial building in Minot, North Dakota;

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The acquisition of a parcel of vacant land in Minot, North Dakota, for possible future development, for a purchase price of approximately \$1.9 million; and

The disposition of the Company's Candlelight Apartments property in Fargo, North Dakota, for a sale price of approximately \$2.0 million and the assumption by the buyer of mortgage debt on the property in the amount of approximately \$1.2 million.

Three Months Ended January 31, 2012

The acquisition of a 36-unit multi-family residential property in Isanti, Minnesota and an adjoining 4.9 acre-parcel of vacant land, for a purchase price of approximately \$3.5 million, of which \$3.0 million was paid in cash and the remainder in limited partnership units of the Operating Partnership valued at \$495,000; this property is located next to the Company's existing 36-unit Evergreen Apartments in Isanti; and

The substantial completion of construction of an additional approximately 28 assisted living units and 16 memory care units at the Company's existing Meadow Wind senior housing facility in Casper, Wyoming.

**Critical Accounting Policies.** In preparing the condensed consolidated financial statements management has made estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates. A summary of the Company's critical accounting policies is included in the Company's Form 10-K for the fiscal year ended April 30, 2012, filed with the SEC on July 16, 2012, as amended by the Current Report on Form 8-K filed with the SEC on December 10, 2012, in Management's Discussion and Analysis of Financial Condition and Results of Operations. There have been no significant changes to those policies during the three months ended January 31, 2013.

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

Results of Operations

Consolidated Results of Operations

**Revenues.** Revenues for the three months ended January 31, 2013 were \$66.2 million compared to \$60.5 million in the three months ended January 31, 2012, an increase of \$5.7 million or 9.4%. Revenues for the nine months ended January 31, 2013 were \$193.2 million compared to \$179.9 million in the nine months ended January 31, 2012, an increase of \$13.3 million or 7.4%. The increase in revenue for the three and nine months ended January 31, 2013 resulted primarily from properties acquired in Fiscal 2013 and 2012, as shown in the table below.

	(in thousands)	
	Increase	
	in	
	Total	Increase
	Revenue	Revenue
	Three	Nine
	Months	Months
	ended	ended
	January	January
	31,	31,
	2013	2013
Rent in Fiscal 2013 primarily from properties acquired in Fiscal 2013	\$2,432	\$6,096
Rent in Fiscal 2013 primarily from properties acquired or placed in service in Fiscal 2012 in excess of that received in Fiscal 2012 from the same properties	1,859	6,864
Increase (decrease) in rent on stabilized properties due primarily to increased occupancy in the multi-family residential segment and increased tenant reimbursements in the commercial office segment <sup>(1)</sup>	1,375	(1,201 )
Decrease in straight line rent	(479 )	(837 )
Decrease in tenant concessions	498	2,328
Net increase in total revenue	\$5,685	\$13,250

(1) See analysis of NOI by segment on pages 32-42 of the MD&A for additional information.

Changes in Expenses and Net Income. Net income available to common shareholders increased by approximately \$912,000 and \$6.1 million during the three and nine months ended January 31, 2013, compared to the three and nine months ended January 31, 2012. The increase in net income is due primarily to an increase in NOI from acquisitions in the three and nine months ended January 31, 2013, compared to the same periods in fiscal year 2012, as well as other factors shown by the following analysis:

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	Increase in Net Income (in thousands)	
	Three Months ended January 31, 2013	Nine Months ended January 31, 2013
Net income available to common shareholders for Fiscal 2012	\$1,534	\$3,054
Increase in NOI due primarily to acquisitions and gain on involuntary conversion	3,900	14,252
Increase in depreciation/amortization due to depreciation of tenant and capital improvements	(1,117)	(4,163)
Increase in administrative, advisory and trustee fees	(586)	(458)
(Increase) decrease in other expenses	(105)	13
Decrease (increase) in interest expense	686	(59)
Decrease in interest and other income	(24)	(45)
Increase in income from discontinued operations	878	3,034
Increase in net income attributable to noncontrolling interests – Operating Partnership	(205)	(1,374)
Increase in net income attributable to noncontrolling interests – consolidated real estate entities	(230)	(518)
Increase in dividends to preferred shareholders	(2,286)	(4,571)
Net income available to common shareholders for Fiscal 2013	\$2,445	\$9,165

Interest Expense. Our mortgage interest expense decreased approximately \$78,000, or 0.5%, to \$15.2 million during the third quarter of fiscal year 2013, compared to \$15.3 million in the third quarter of fiscal year 2012. Mortgage interest expense increased approximately \$901,000, or 2.0%, to \$46.0 million during the nine months ended January 31, 2013, compared to \$45.1 million in same period of the prior fiscal year.

Mortgage interest expense for properties newly acquired in fiscal years 2013 and 2012 added approximately \$918,000 and \$2.9 million to our total mortgage interest expense in the three and nine months ended January 31, 2013, while mortgage interest expense on existing properties decreased \$996,000 and \$2.0 million for the three and nine months ended January 31, 2013, respectively, compared to the same periods of fiscal year 2012. The decrease in mortgage interest expense is due to loan payoffs and refinancings in our stabilized properties portfolio. The mortgage interest expense category does not include interest expense on our line of credit, which totaled approximately \$132,000 and \$838,000 in the three and nine months ended January 31, 2013, and \$775,000 and \$1.8 million in the same periods of the prior fiscal year. Mortgage interest expense and interest expense on our line of credit are all components of "Interest expense" on our Condensed Consolidated Statements of Operations. Our overall weighted average interest rate on all outstanding mortgage debt (excluding borrowings under our secured line of credit and construction loans) was 5.65% as of January 31, 2013 and 5.78% as of April 31, 2012. Our mortgage debt on January 31, 2013 decreased approximately \$7.1 million, or 0.7% from April 30, 2012. Mortgage debt does not include our multi-bank line of credit or our construction loans which appear on our Condensed Consolidated Balance Sheets in "Revolving line of credit" and "Other," respectively.

In addition to IRET's mortgage interest expense, the Company incurs interest expense for a line of credit, construction loans, amortization of loan costs, security deposits, and special assessments offset by capitalized construction interest. For the three months ended January 31, 2013 and 2012 these amounts were approximately \$478,000 and \$1.1 million, respectively, for a total interest expense for the three months ended January 31, 2013 and 2012 of \$15.7 million and \$16.4 million, a decrease of approximately \$686,000. For the nine months ended January 31, 2013 and 2012 these amounts were \$2.4 million and \$3.3 million, respectively, for a total interest expense for both the nine months ended January 31, 2013 and 2012 of \$48.4 million.

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Net Operating Income

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

The following tables show real estate revenues, real estate operating expenses and NOI by reportable operating segment for the three and nine months ended January 31, 2013 and 2012. For a reconciliation of net operating income of reportable segments to net income as reported, see Note 5 of the Notes to the Condensed Consolidated Financial Statements in this report.

The tables also show net operating income by reportable operating segment on a stabilized property and non-stabilized property basis. Stabilized properties are properties owned and in operation for the entirety of the periods being compared (including properties that were redeveloped or expanded during the periods being compared, with properties purchased or sold during the periods being compared excluded from the stabilized property category), and, in the case of development or re-development properties, which have achieved a target level of occupancy. This comparison allows the Company to evaluate the performance of existing properties and their contribution to net income.

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

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## All Segments

The following table of selected operating data reconciles NOI to net income and provides the basis for our discussion of NOI by segment in the three months ended January 31, 2013 and 2012.

	(in thousands, except percentages)			
	Three Months Ended January 31			
			\$	%
All Segments	2013	2012	Change	Change
Real estate revenue				
Stabilized	\$60,085	\$58,810	\$ 1,275	2.2 %
Non-stabilized <sup>(1)</sup>	6,146	1,736	4,410	254.0 %
Total	\$66,231	\$60,546	\$ 5,685	9.4 %
Real estate expenses				
Stabilized	\$24,488	\$24,192	\$ 296	1.2 %
Non-stabilized <sup>(1)</sup>	1,887	398	1,489	374.1 %
Total	\$26,375	\$24,590	\$ 1,785	7.3 %
Net operating income				
Stabilized	\$35,597	\$34,618	\$ 979	2.8 %
Non-stabilized <sup>(1)</sup>	4,259	1,338	2,921	218.3 %
Total	\$39,856	\$35,956	\$ 3,900	10.8 %
Depreciation/amortization	(16,300)	(15,183)		
Administrative, advisory and trustee services	(2,245 )	(1,659 )		
Other expenses	(464 )	(359 )		
Interest expense	(15,725)	(16,411)		
Interest and other income	255	279		
Income from continuing operations	5,377	2,623		
Income (loss) from discontinued operations <sup>(2)</sup>	776	(102 )		
Net income	\$6,153	\$2,521		

## (1) Non-stabilized properties include:

	Ashland, Grand Forks, ND; Chateau, Minot, ND; Colony, Lincoln, NE; Cottage West Twin Homes, Sioux Falls, SD; Evergreen II, Isanti, MN; Gables Townhomes, Sioux Falls, SD;
FY2013 Multi-Family	Grand Gateway, St Cloud, MN; Lakeside Village, Lincoln, NE; Quarry Ridge II, Rochester, MN; Regency Park Estates, St Cloud, MN; The Ponds at Heritage Place, Sartell, MN; Villa West, Topeka, KS and Williston Garden, Williston, ND.
- Residential -	Total number of units, 1,597.
	Edina 6525 Drew Avenue, Edina, MN; Jamestown Medical Office Building, Jamestown, ND; Spring Creek American Falls, American Falls, ID; Spring Creek Soda Springs, Soda Springs, ID; Spring Creek Eagle, Eagle, ID; Spring Creek Meridian, Meridian, ID; Spring Creek Overland, Boise, ID; Spring Creek Boise, Boise, ID; Spring Creek Ustick, Meridian, ID and Trinity at Plaza 16, Minot, ND.
Commercial Medical -	Total rentable square footage, 223,192.
	Minot IPS, Minot, ND.
Commercial Industrial -	Total rentable square footage, 27,567.

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FY2012 Multi-Family  
- Residential - Chateau, Minot, ND; Cottage West Twin Homes, Sioux Falls, SD; Evergreen II, Isanti, MN;  
Gables Townhomes, Sioux Falls, SD; Regency Park Estates, St Cloud, MN.  
Total number of units, 321.  
Edina 6525 Drew Avenue, Edina, MN; Spring Creek American Falls, American Falls, ID;  
Spring Creek Soda Springs, Soda Springs, ID; Spring Creek Eagle, Eagle, ID; Spring Creek  
Commercial Meridian, Meridian, ID; Spring Creek Overland, Boise, ID; Spring Creek Boise, Boise, ID;  
Medical - Spring Creek Ustick, Meridian, ID and Trinity at Plaza 16, Minot, ND.  
Total rentable square footage, 177,970.

- (2) Discontinued operations include gain on disposals and income from operations for:  
2013 Dispositions and Properties Held for Sale – Candlelight, Georgetown Square Condominiums, Kentwood  
Thomasville Furniture, Prairiewood Meadows and Terrace on the Green.  
2012 Dispositions and Properties Held for Sale – Livingston Pamida, East Grand Station, Georgetown Square  
Condominiums and Kentwood Thomasville Furniture.

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An analysis of NOI by segment follows.

## Multi-Family Residential

Real estate revenue from stabilized properties in our multi-family residential segment increased by \$634,000 in the three months ended January 31, 2013 compared to the same period in the prior fiscal year. The continued levels of high occupancy provided for the ability to raise rents, and accordingly \$514,000 of this increase was due to rental rate increases. The remainder of the real estate revenue increase is attributable to a decrease of \$79,000, in allowances and concessions and an increase of \$41,000 in other fee revenue items.

Real estate expenses at stabilized properties increased by \$560,000 in the three months ended January 31, 2013 compared to the same period in the prior fiscal year. The primary factor was increased maintenance expense of \$432,000. The increase in maintenance expenses was primarily due to more general maintenance items being completed during the quarter and an increase in snow removal. Utilities, real estate taxes and insurance expense combined increased by \$273,000 while property management expenses decreased by \$145,000. The decrease in property management expense was primarily due to overall efficiencies and cost savings due to internalization of in-house property management.

(in thousands, except percentages)

Three Months Ended January 31,

			\$	%	
	2013	2012	Change	Change	

## Multi-Family Residential

## Real estate revenue

Stabilized	\$18,254	\$17,620	\$ 634	3.6	%
Non-stabilized	4,813	780	4,033	517.1	%
Total	\$23,067	\$18,400	\$ 4,667	25.4	%

## Real estate expenses

Stabilized	\$8,696	\$8,136	\$ 560	6.9	%
Non-stabilized	1,648	316	1,332	421.5	%
Total	\$10,344	\$8,452	\$ 1,892	22.4	%

## Net operating income

Stabilized	\$9,558	\$9,484	\$ 74	0.8	%
Non-stabilized	3,165	464	2,701	582.1	%
Total	\$12,723	\$9,948	\$ 2,775	27.9	%

Occupancy	2013	2012
Stabilized	94.0%	93.9%
Non-stabilized	91.4%	74.5%
Total	93.6%	93.2%

Number of Units	2013	2012
Stabilized	8,327	8,333
Non-stabilized	1,597	321
Total	9,924	8,654

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## Commercial Office

Real estate revenue from stabilized properties in our commercial office segment increased by \$797,000, in the third quarter of fiscal year 2013 compared to the third quarter of fiscal year 2012. The increase in revenue was primarily due to increased tenant reimbursements of \$538,000, resulting from increased recoverable operating expenses; a decrease in allowances and concessions of \$173,000 and an increase in other revenue items combined of \$86,000. Real estate expenses at stabilized properties increased by \$705,000 in the third quarter of fiscal year 2013 compared to the third quarter of fiscal 2012. The primary factors were an increase in maintenance expenses of \$300,000 and an increase in property management expense of \$234,000. The increase in maintenance expenses was primarily due to increased snow removal while the increase in property management expense was attributable to recoverable allocations of internal management fees as compared to prior periods. Utilities, real estate taxes and insurance expenses combined increased by \$171,000.

(in thousands, except percentages)

Three Months Ended January 31,

			\$	%	
	2013	2012	Change	Change	

## Commercial Office

## Real estate revenue

Stabilized	\$19,338	\$18,541	\$ 797	4.3	%
Non-stabilized	0	0	0	0.0	%
Total	\$19,338	\$18,541	\$ 797	4.3	%

## Real estate expenses

Stabilized	\$9,399	\$8,694	\$ 705	8.1	%
Non-stabilized	0	0	0	0.0	%
Total	\$9,399	\$8,694	\$ 705	8.1	%

## Net operating income

Stabilized	\$9,939	\$9,847	\$ 92	0.9	%
Non-stabilized	0	0	0	0.0	%
Total	\$9,939	\$9,847	\$ 92	0.9	%

## Occupancy 2013 2012

Stabilized 78.4% 77.9%

Non-stabilized n/a n/a

Total 78.4% 77.9%

## Rentable Square Footage 2013 2012

Stabilized 5,062,048 5,061,212

Non-stabilized 0 0

Total 5,062,048 5,061,212

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## Commercial Medical

Real estate revenue from stabilized properties in our commercial medical segment decreased by \$727,000 in the third quarter of fiscal year 2013 compared to the third quarter of fiscal year 2012. The decrease was primarily due to the reduction in revenue of \$1.3 million at our Wyoming senior living facilities offset by an increase in percentage rent revenue of \$476,000 and an increase in other revenue items of \$139,000. The revenue reduction at our Wyoming senior living facilities (which is offset by a \$1.3 million reduction in real estate expenses outlined below) is the result of the restructuring of the Company's assisted living portfolio in the third quarter of fiscal year 2012, when the Company sold its wholly-owned taxable REIT subsidiary. Following the sale of this entity, the Company's revenue from its Wyoming assisted living portfolio is received as rent under the lease agreement with the tenant in the facilities, and property management expenses are paid by the tenant, rather than (as was previously the case) included in the property management expense category of the Company's statements. The increase in percentage rent revenue is attributable to our Edgewood Vista senior living facilities.

Real estate expenses from stabilized properties decreased by \$1.2 million in the third quarter of fiscal year 2013 compared to the third quarter of fiscal year 2012. A decrease of \$1.3 million was the result of the portfolio restructuring discussed above. Other real estate expenses combined increased by \$76,000.

(in thousands, except percentages)

Three Months Ended January 31,

\$ %

2013 2012 Change Change

## Commercial Medical

## Real estate revenue

Stabilized	\$14,927	\$15,654	\$(727 )	(4.6 )%
Non-stabilized	1,280	956	324	33.9 %
Total	\$16,207	\$16,610	\$(403 )	(2.4 )%

## Real estate expenses

Stabilized	\$3,890	\$5,138	\$(1,248 )	(24.3 )%
Non-stabilized	239	82	157	191.5 %
Total	\$4,129	\$5,220	\$(1,091 )	(20.9 )%

## Net operating income

Stabilized	\$11,037	\$10,516	\$521	5.0 %
Non-stabilized	1,041	874	167	19.1 %
Total	\$12,078	\$11,390	\$688	6.0 %

## Occupancy 2013 2012

Stabilized	94.6%	94.2%
Non-stabilized	98.2%	99.2%
Total	94.9%	94.5%

## Rentable Square Footage 2013 2012

Stabilized	2,780,780	2,749,718
Non-stabilized	223,192	177,970
Total	3,003,972	2,927,688

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## Commercial Industrial

Real estate revenue from stabilized properties in our commercial industrial segment increased by \$204,000 in the third quarter of fiscal year 2013 compared to the third quarter of fiscal year 2012. The increase was primarily due to an increase in tenant reimbursements of \$134,000 which was attributable to our Dixon Avenue property. The increase at Dixon Avenue was the result of 90,000 square feet of previously vacant space being leased and additional expiring space that was previously leased as a gross lease renewing as a net lease which allows for the additional collections of expense reimbursements. An increase in rental revenue of \$70,000 was realized due to a slight increase in occupancy. Real estate expenses from stabilized properties increased by \$17,000 in the quarter of fiscal 2013 compared to the second quarter of fiscal 2012. Maintenance expenses overall increased by \$41,000 primarily due to an increase in snow removal. Other expenses combined decreased by \$24,000.

(in thousands, except percentages)

Three Months Ended January 31,

	2013	2012	\$ Change	% Change	
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## Commercial Industrial

## Real estate revenue

Stabilized	\$3,800	\$3,596	\$ 204	5.7	%
Non-stabilized	53	0	53	n/	a
Total	\$3,853	\$3,596	\$ 257	7.1	%

## Real estate expenses

Stabilized	\$1,095	\$1,078	\$ 17	1.6	%
Non-stabilized	0	0	0	0.0	%
Total	\$1,095	\$1,078	\$ 17	1.6	%

## Net operating income

Stabilized	\$2,705	\$2,518	\$ 187	7.4	%
Non-stabilized	53	0	53	n/	a
Total	\$2,758	\$2,518	\$ 240	9.5	%

## Occupancy 2013 2012

Stabilized 95.8% 94.5%

Non-stabilized 100% n/a

Total 95.9% 94.5%

## Rentable Square Footage 2013 2012

Stabilized 2,935,764 2,943,968

Non-stabilized 27,567 0

Total 2,963,331 2,943,968

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## Commercial Retail

Real estate revenue from stabilized properties in our commercial retail segment increased by \$367,000 in the third quarter of fiscal year 2013 compared to the third quarter of fiscal year 2012. The primary factor was an increase in tenant reimbursements of \$274,000 with the remaining increase of \$93,000 being attributable to increased rental revenue. The increased tenant reimbursements resulted from an increase in recoverable expenses. Increased occupancy at our Minot Arrowhead Shopping Center post-flood accounted for \$79,000 of the increase in real estate rentals.

Real estate expenses from stabilized properties increased by \$262,000, primarily due to an increase in maintenance expense of \$203,000; an increase in real estate taxes of \$69,000; offset by a decrease in other expenses combined of \$10,000. The increase in maintenance expenses was primarily due to more general maintenance items being completed during the quarter and an increase in snow removal.

(in thousands, except percentages)

Three Months Ended January 31,

			\$	%	
	2013	2012	Change	Change	

## Commercial Retail

## Real estate revenue

Stabilized	\$3,766	\$3,399	\$ 367	10.8	%
Non-stabilized	0	0	0	0.0	%
Total	\$3,766	\$3,399	\$ 367	10.8	%

## Real estate expenses

Stabilized	\$1,408	\$1,146	\$ 262	22.9	%
Non-stabilized	0	0	0	0.0	%
Total	\$1,408	\$1,146	\$ 262	22.9	%

## Net operating income

Stabilized	\$2,358	\$2,253	\$ 105	4.7	%
Non-stabilized	0	0	0	0.0	%
Total	\$2,358	\$2,253	\$ 105	4.7	%

Occupancy	2013	2012
Stabilized	87.9%	87.5%
Non-stabilized	n/a	n/a
Total	87.9%	87.5%

Rentable Square Footage	2013	2012
Stabilized	1,395,632	1,392,133
Non-stabilized	0	0
Total	1,395,632	1,392,133

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## All Segments

The following table of selected operating data reconciles NOI to net income and provides the basis for our discussion of NOI by segment in the nine months ended January 31, 2013 and 2012.

	(in thousands, except percentages)				
	Nine Months Ended January 31				
	2013	2012	\$	%	
			Change	Change	
All Segments					
Real estate revenue					
Stabilized	\$176,903	\$177,146	\$(243 )	(0.1 )%	
Non-stabilized <sup>(1)</sup>	16,257	2,764	13,493	488.2 %	
Total	\$193,160	\$179,910	\$13,250	7.4 %	
Real estate expenses					
Stabilized	\$71,159	\$73,994	\$(2,835 )	(3.8 )%	
Non-stabilized <sup>(1)</sup>	4,861	765	4,096	535.4 %	
Total	\$76,020	\$74,759	\$1,261	1.7 %	
Gain on involuntary conversion					
Stabilized	\$0	\$0	\$0	0.0 %	
Non-stabilized <sup>(1)</sup>	2,263	0	2,263	n/ a	
Total	\$2,263	\$0	\$2,263	n/ a	
Net operating income					
Stabilized	\$105,744	\$103,152	\$2,592	2.5 %	
Non-stabilized <sup>(1)</sup>	13,659	1,999	11,660	583.3 %	
Total	\$119,403	\$105,151	\$14,252	13.6 %	
Depreciation/amortization	(49,028 )	(44,865 )			
Administrative, advisory and trustee services	(6,402 )	(5,944 )			
Other expenses	(1,496 )	(1,509 )			
Interest expense	(48,448 )	(48,389 )			
Interest and other income	600	645			
Income from continuing operations	14,629	5,089			
Income from discontinued operations <sup>(2)</sup>	3,530	496			
Net income	\$18,159	\$5,585			

(1) See list of non-stabilized properties on page 31 of the MD&A.

(2) See list of discontinued operations on page 31 of the MD&A.

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An analysis of NOI by segment follows.

## Multi-Family Residential

Real estate revenue from stabilized properties in our multi-family residential segment increased by \$2.3 million in the nine months ended January 31, 2013 compared to the same period in the prior fiscal year. The continued levels of high occupancy provided for the ability to raise rents, and accordingly \$1.8 million of this increase was due to rental rate increases. The remainder of the real estate revenue increase is attributable to a decrease of \$360,000 in allowances and concessions and an increase of \$168,000 in other fee revenue items.

Real estate expenses at stabilized properties decreased by \$255,000 in the nine months ended January 31, 2013 compared to the same period in the prior fiscal year. Real estate taxes increased by \$270,000; insurance expense increased by \$215,000 and utilities and maintenance expenses combined increased by \$42,000. These increases in expenses were offset by a decrease in property management expenses of \$782,000 for a net decrease in overall expenses of \$255,000. The decreases in property management expenses were primarily due to overall efficiencies and cost savings due to internalization of in-house property management.

In the second quarter of fiscal year 2013, the Company received insurance proceeds for the Chateau Apartments fire loss that exceeded the estimated basis in the assets requiring replacement, resulting in recognition of \$2.3 million in gain from involuntary conversion. Detail on the gain from involuntary conversion is provided in Note 2.

	(in thousands, except percentages)				
	Nine Months Ended January 31,				
			\$	%	
	2013	2012	Change	Change	
Multi-Family Residential					
Real estate revenue					
Stabilized	\$54,480	\$52,147	\$2,333	4.5	%
Non-stabilized	12,901	1,294	11,607	897.0	%
Total	\$67,381	\$53,441	\$13,940	26.1	%
Real estate expenses					
Stabilized	\$24,275	\$24,530	\$(255)	(1.0)	)%
Non-stabilized	4,371	594	3,777	635.9	%
Total	\$28,646	\$25,124	\$3,522	14.0	%
Gain on involuntary conversion					
Stabilized	\$0	\$0	\$0	0.0	%
Non-stabilized	2,263	0	2,263	n/	a
Total	\$2,263	\$0	\$2,263	n/	a
Net operating income					
Stabilized	\$30,205	\$27,617	\$2,588	9.4	%
Non-stabilized	10,793	700	10,093	1441.9	%
Total	\$40,998	\$28,317	\$12,681	44.8	%
Occupancy					
	2013	2012			
Stabilized	94.0%	93.9%			
Non-stabilized	91.4%	74.5%			
Total	93.6%	93.2%			

Number of Units	2013	2012
Stabilized	8,327,333	
Non-stabilized	1,597,321	
Total	9,924,654	

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## Commercial Office

Real estate revenue from stabilized properties in our commercial office segment increased by \$1.4 million in the nine months ended January 31, 2013 compared to the same period from the prior fiscal year. Real estate rentals increased by \$635,000 and tenant reimbursements increased by \$747,000 due to a slight increase in occupancy and increased recoverable operating expenses.

Real estate expenses at stabilized properties increased by 6.2%, or \$1.6 million in the nine months ended January 31, 2013 compared to the same period from the prior fiscal year. The increase was primarily due to an increase in real estate taxes of \$478,000; an increase in property management expense of \$842,000 and an increase of \$310,000 in other expense items. The increase in property management expenses is attributable to recoverable allocations of internal management fees as compared to prior periods.

(in thousands, except percentages)

Nine Months Ended January 31,

	2013	2012	\$	%	
			Change	Change	
<b>Commercial Office</b>					
Real estate revenue					
Stabilized	\$57,105	\$55,723	\$ 1,382	2.5	%
Non-stabilized	0	0	0	0.0	%
Total	\$57,105	\$55,723	\$ 1,382	2.5	%
Real estate expenses					
Stabilized	\$28,081	\$26,451	\$ 1,630	6.2	%
Non-stabilized	0	0	0	0.0	%
Total	\$28,081	\$26,451	\$ 1,630	6.2	%
Net operating income					
Stabilized	\$29,024	\$29,272	\$ (248 )	(0.8 )	%
Non-stabilized	0	0	0	0.0	%
Total	\$29,024	\$29,272	\$ (248 )	(0.8 )	%
Occupancy					
	2013	2012			
Stabilized	78.4%	77.9%			
Non-stabilized	n/a	n/a			
Total	78.4%	77.9%			

Rentable Square Footage	2013	2012
Stabilized	5,062,048	5,061,212
Non-stabilized	0	0
Total	5,062,048	5,061,212

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## Commercial Medical

Real estate revenue from stabilized properties in our commercial medical segment decreased by \$5.1 million in the nine months ended January 31, 2013 compared to the same period from the prior fiscal year. The decrease was primarily due to the reduction in revenue of \$5.2 million at our Wyoming senior living facilities and a reduction of \$528,000 in rental revenue at our Sartell, Minnesota property caused by slightly lower occupancy. These reductions in revenue were offset by an increase in percentage rent revenue of \$476,000 and an increase in tenant reimbursements of \$225,000. The revenue reduction at our Wyoming senior living facilities (which is offset by a \$5.0 million reduction in real estate expenses outlined below) is the result of the restructuring of the Company's assisted living portfolio in the third quarter of fiscal year 2012, when the Company sold its wholly-owned taxable REIT subsidiary. Following the sale of this entity, the Company's revenue from its Wyoming assisted living portfolio is received as rent under the lease agreement with the tenant in the facilities, and property management expenses are paid by the tenant, rather than (as was previously the case) included in the property management expense category of the Company's statements. The increase in percentage rent revenue is attributable to our Edgewood Vista senior living facilities.

Real estate expenses from stabilized properties decreased by \$4.6 million in the nine months ended January 31, 2013 compared to the same period in the prior fiscal year. A decrease of \$5.0 million was the result of the portfolio restructuring discussed above. Other real estate expenses combined increased by \$339,000.

(in thousands, except percentages)

Nine Months Ended January 31,

			\$	%
	2013	2012	Change	Change

## Commercial Medical

## Real estate revenue

Stabilized	\$43,748	\$48,829	\$(5,081)	(10.4)	%
Non-stabilized	3,303	1,470	1,833	124.7	%
Total	\$47,051	\$50,299	\$(3,248)	(6.5)	%

## Real estate expenses

Stabilized	\$11,905	\$16,538	\$(4,633)	(28.0)	%
Non-stabilized	490	171	319	186.6	%
Total	\$12,395	\$16,709	\$(4,314)	(25.8)	%

## Net operating income

Stabilized	\$31,843	\$32,291	\$(448)	(1.4)	%
Non-stabilized	2,813	1,299	1,514	116.6	%
Total	\$34,656	\$33,590	\$1,066	3.2	%

Occupancy	2013	2012
Stabilized	94.6%	94.2%
Non-stabilized	98.2%	99.2%
Total	94.9%	94.5%

Rentable Square Footage	2013	2012
Stabilized	2,780,780	2,749,718
Non-stabilized	223,192	177,970
Total	3,003,972	2,927,688



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## Commercial Industrial

Real estate revenue from stabilized properties in our commercial industrial segment increased by \$240,000 in the nine months ended January 31, 2013 compared to the same period in the prior fiscal year. The increase was primarily due to an increase in tenant reimbursements of \$233,000 which was attributable to our Dixon Avenue property. The increase at Dixon Avenue was the result of 90,000 square feet of previously vacant space being leased and additional expiring space that was previously leased as a gross lease renewing as a net lease which allows for the additional collections of expense reimbursements. An increase in rental revenue of \$60,000 was realized due to a slight increase in occupancy while other revenue items decreased by \$53,000.

Real estate expenses from stabilized properties decreased by \$128,000 in the nine months ended January 31, 2013 compared to the same period in the prior fiscal year. The decrease was primarily due to a decrease in real estate taxes of \$108,000. All other expense combined decreased by \$20,000.

(in thousands, except percentages)

Nine Months Ended January 31,

	2013	2012	\$	%
			Change	Change

## Commercial Industrial

## Real estate revenue

Stabilized	\$10,837	\$10,597	\$ 240	2.3	%
Non-stabilized	53	0	53	n/	a
Total	\$10,890	\$10,597	\$ 293	2.8	%

## Real estate expenses

Stabilized	\$3,050	\$3,178	\$ (128 )	(4.0	)%
Non-stabilized	0	0	0	0.0	%
Total	\$3,050	\$3,178	\$ (128 )	(4.0	)%

## Net operating income

Stabilized	\$7,787	\$7,419	\$ 368	5.0	%
Non-stabilized	53	0	53	n/	a
Total	\$7,840	\$7,419	\$ 421	5.7	%

## Occupancy 2013 2012

Stabilized 95.8% 94.5%

Non-stabilized 100% n/a

Total 95.9% 94.5%

## Rentable Square Footage 2013 2012

Stabilized 2,935,764 2,943,968

Non-stabilized 27,567 0

Total 2,963,331 2,943,968

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## Commercial Retail

Real estate revenue from stabilized properties in our commercial retail segment increased by \$883,000 in the nine months ended January 31, 2013 compared to the same period of the prior fiscal year. The increase was due primarily to a \$535,000 increase in real estate rentals with the remaining increase of \$348,000 being attributable to tenant reimbursements. Increased occupancy at our Minot Arrowhead Shopping Center post-flood accounted for \$425,000 of the increase in real estate rentals.

Real estate expenses from stabilized properties increased by \$551,000, primarily due to an increase in maintenance expense of \$353,000; an increase in real estate taxes of \$132,000 and an increase in other expenses combined of \$66,000. The increase in maintenance expenses was primarily due to more general maintenance items being completed and an increase in snow removal.

(in thousands, except percentages)

Nine Months Ended January 31,

			\$	%	
	2013	2012	Change	Change	
<b>Commercial Retail</b>					
Real estate revenue					
Stabilized	\$10,733	\$9,850	\$ 883	9.0	%
Non-stabilized	0	0	0	0.0	%
Total	\$10,733	\$9,850	\$ 883	9.0	%
Real estate expenses					
Stabilized	\$3,848	\$3,297	\$ 551	16.7	%
Non-stabilized	0	0	0	0.0	%
Total	\$3,848	\$3,297	\$ 551	16.7	%
Net operating income					