

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

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

Form 10-Q

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

For the quarterly period ended October 31, 2018

or

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

For the transition period from _____ to _____

Commission File Number 001-35624

INVESTORS REAL ESTATE TRUST

(Exact name of registrant as specified in its charter)

North Dakota

45-0311232

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

1400 31st Avenue SW, Suite 60, Post Office Box 1988, Minot, ND 58702-1988

(Address of principal executive offices) (Zip code)

(701) 837-4738

(Registrant's telephone number, including area code)

N/A

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

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

Yes

No

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

Yes

No

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

Large

accelerated filer

Non-accelerated filer Smaller Reporting Company Emerging growth company

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

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

Yes

No

The number of common shares of beneficial interest outstanding as of December 3, 2018, was 119,709,471.

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PART I

ITEM 1. FINANCIAL STATEMENTS - SECOND QUARTER - FISCAL 2019

INVESTORS REAL ESTATE TRUST AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS (unaudited)

	(in thousands, except per share data)	
	October 31, 2018	April 30, 2018
ASSETS		
Real estate investments		
Property owned	\$1,638,072	\$1,669,764
Less accumulated depreciation	(345,015)	(311,324)
	1,293,057	1,358,440
Unimproved land	6,522	11,476
Mortgage loans receivable	10,530	10,329
Total real estate investments	1,310,109	1,380,245
Cash and cash equivalents	12,777	11,891
Restricted cash	5,085	4,225
Other assets	29,769	30,297
TOTAL ASSETS	\$1,357,740	\$1,426,658
LIABILITIES, REDEEMABLE NONCONTROLLING INTERESTS, AND EQUITY		
LIABILITIES		
Accounts payable and accrued expenses	27,920	29,018
Revolving line of credit	69,500	124,000
Term loans, net of unamortized loan costs of \$1,044 and \$486, respectively	143,956	69,514
Mortgages payable, net of unamortized loan costs of \$1,865 and \$2,221, respectively	447,549	509,919
TOTAL LIABILITIES	\$688,925	\$732,451
COMMITMENTS AND CONTINGENCIES (NOTE 6)		
REDEEMABLE NONCONTROLLING INTERESTS – CONSOLIDATED REAL ESTATE ENTITIES	6,078	6,644
EQUITY		
Series C Preferred Shares of Beneficial Interest (Cumulative redeemable preferred shares, no par value, \$25 per share liquidation preference, 4,118 shares issued and outstanding at October 31, 2018 and April 30, 2018, aggregate liquidation preference of \$102,971)	99,456	99,456
Common Shares of Beneficial Interest (Unlimited authorization, no par value, 119,727 shares issued and outstanding at October 31, 2018 and 119,526 shares issued and outstanding at April 30, 2018)	900,526	900,097
Accumulated distributions in excess of net income	(416,819)	(395,669)
Accumulated other comprehensive income	\$3,321	\$1,779
Total shareholders' equity	586,484	605,663
Noncontrolling interests – Operating Partnership (13,678 units at October 31, 2018 and 14,099 units at April 30, 2018)	69,334	73,012
Noncontrolling interests – consolidated real estate entities	6,919	8,888
Total equity	\$662,737	\$687,563
TOTAL LIABILITIES, REDEEMABLE NONCONTROLLING INTERESTS, AND EQUITY	\$1,357,740	\$1,426,658

See accompanying Notes to Condensed Consolidated Financial Statements.

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CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited)

	(in thousands, except per share data)			
	Three Months		Six Months Ended	
	Ended October 31,		October 31,	
	2018	2017	2018	2017
REVENUE	\$45,638	\$41,866	\$91,584	\$82,844
EXPENSES				
Property operating expenses, excluding real estate taxes	14,247	14,108	28,706	26,982
Real estate taxes	5,089	4,610	10,159	9,263
Property management expense	1,319	1,372	2,686	2,728
Casualty loss	225	115	450	600
Depreciation and amortization	19,191	17,270	37,803	42,608
Impairment of real estate investments	—	—	—	256
General and administrative expenses	3,374	3,118	7,244	7,120
TOTAL EXPENSES	\$43,445	\$40,593	\$87,048	\$89,557
Operating income (loss)	2,193	1,273	4,536	(6,713)
Interest expense	(7,997)	(8,509)	(16,382)	(16,640)
Loss on extinguishment of debt	(4)	(334)	(556)	(533)
Interest income	410	199	891	220
Other income	19	56	54	263
Income (loss) before gain on sale of real estate and other investments and income (loss) from discontinued operations	(5,379)	(7,315)	(11,457)	(23,403)
Gain (loss) on sale of real estate and other investments	(232)	5,324	8,992	5,448
Income (loss) from continuing operations	(5,611)	(1,991)	(2,465)	(17,955)
Income (loss) from discontinued operations	—	15,130	570	17,815
NET INCOME (LOSS)	\$(5,611)	\$13,139	\$(1,895)	\$(140)
Net (income) loss attributable to noncontrolling interests – Operating Partnership	722	(773)	587	871
Net (income) loss attributable to noncontrolling interests – consolidated real estate entities	331	455	(334)	826
Net income (loss) attributable to controlling interests	(4,558)	12,821	(1,642)	1,557
Dividends to preferred shareholders	(1,706)	(2,812)	(3,411)	(5,098)
Redemption of preferred shares	—	(3,649)	—	(3,649)
NET INCOME (LOSS) AVAILABLE TO COMMON SHAREHOLDERS	\$(6,264)	\$6,360	\$(5,053)	\$(7,190)
Earnings (loss) per common share from continuing operations – basic and diluted	\$(0.05)	\$(0.06)	\$(0.04)	\$(0.19)
Earnings (loss) per common share from discontinued operations – basic and diluted	—	\$0.11	—	0.13
NET EARNINGS (LOSS) PER COMMON SHARE – BASIC & DILUTED	\$(0.05)	\$0.05	\$(0.04)	\$(0.06)
DIVIDENDS PER COMMON SHARE	\$0.07	\$0.07	\$0.14	\$0.14

See accompanying Notes to Condensed Consolidated Financial Statements.

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CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (unaudited)

	(in thousands)			
	Three Months Ended October 31,		Six Months Ended October 31,	
	2018	2017	2018	2017
Net income (loss)	\$(5,611)	\$13,139	\$(1,895)	\$(140)
Other comprehensive income:				
Unrealized gain (loss) from derivative instrument	1,333	—	1,542	—
(Gain) loss on derivative instrument reclassified into earnings	90	—	119	—
Total comprehensive income (loss)	\$(4,188)	\$13,139	\$(234)	\$(140)
Net comprehensive (income) loss attributable to noncontrolling interests – Operating Partnership	585	(733)	428	871
Net comprehensive (income) loss attributable to noncontrolling interests – consolidated real estate entities	331	455	(334)	826
Comprehensive income (loss) attributable to controlling interests	\$(3,272)	\$12,861	\$(140)	\$1,557

See accompanying Notes to Condensed Consolidated Financial Statements.

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CONDENSED CONSOLIDATED STATEMENTS OF EQUITY (unaudited)

	PREFERRED SHARES	NUMBER OF COMMON SHARES	COMMON SHARES	ACCUMULATED DISTRIBUTIONS IN EXCESS OF NET INCOME	ACCUMULATED OTHER COMPREHENSIVE INCOME	NONREDEEMABLE NONCONTROLLING INTERESTS	TOTAL EQUITY
Balance April 30, 2017	\$ 111,357	121,199	\$ 908,905	\$ (466,541)	—	\$ 82,437	\$ 636,158
Net income (loss) attributable to controlling interests and nonredeemable noncontrolling interests				1,557		(1,328)	229
Distributions – common shares and units				(16,881)		(2,089)	(18,970)
Distributions – Series B preferred shares				(4,571)			(4,571)
Distributions – Series C preferred shares				(527)			(527)
Shares issued and share-based compensation		75	844				844
Series C preferred shares issued	99,467						99,467
Redemption of units for cash						(5,982)	(5,982)
Shares repurchased	(111,357)	(1,080)	(6,253)	(3,649)			(121,259)
Contributions from nonredeemable noncontrolling interests – consolidated real estate entities						239	239
Distributions to nonredeemable noncontrolling interests – consolidated real estate entities						(41)	(41)
Other		(5)	(29)				(29)
Balance October 31, 2017	\$ 99,467	120,189	\$ 903,467	\$ (490,612)	—	\$ 73,236	\$ 585,558
Balance April 30, 2018	\$ 99,456	119,526	\$ 900,097	\$ (395,669)	\$ 1,779	\$ 81,900	\$ 687,563
Cumulative adjustment upon adoption of ASC 606 and ASC 610-20				627			627
Balance on May 1, 2018	\$ 99,456	119,526	\$ 900,097	\$ (395,042)	\$ 1,779	\$ 81,900	\$ 688,190
Net income (loss) attributable to controlling interests and				(1,642)		79	(1,563)

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nonredeemable noncontrolling interests							
Other comprehensive income - derivative instrument			1,542				1,542
Distributions – common shares and units		(16,724	)		(1,960	)	(18,684)
Distributions – Series C preferred shares		(3,411	)				(3,411)
Shares issued and share-based compensation	27	777					777
Redemption of units for common shares	331	649			(649)	—
Redemption of units for cash					(482	)	(482)
Shares repurchased	(119	)	(615	)			(615)
Distributions to nonredeemable noncontrolling interests – consolidated real estate entities					(2,374	)	(2,374)
Other	(38	)	(382	)	(261	)	(643)
Balance October 31, 2018	\$ 99,456	119,727	\$ 900,526	\$ (416,819)	\$ 3,321	\$ 76,253	\$ 662,737
See accompanying Notes to Condensed Consolidated Financial Statements.							

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

	(in thousands)	
	Six Months Ended	
	October 31,	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	\$(1,895)	\$(140)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization, including amortization of capitalized loan costs	38,522	43,176
Depreciation and amortization from discontinued operations, including amortization of capitalized loan costs	—	7,077
(Gain) loss on sale of real estate, land, other investments and discontinued operations	(9,562)	(17,686)
Share-based compensation expense	580	751
Other, net	956	1,164
Changes in other assets and liabilities:		
Other assets	(725)	(1,853)
Accounts payable and accrued expenses	(662)	(4,756)
Net cash provided by operating activities	\$27,214	\$27,733
CASH FLOWS FROM INVESTING ACTIVITIES		
Principal proceeds on mortgage loans receivable	425	—
Increase in notes receivable	(736)	(6,126)
Proceeds from sale of discontinued operations	—	35,775
Proceeds from sale of real estate and other investments	52,156	18,039
Insurance proceeds received	1,266	530
Payments for acquisitions of real estate assets	(837)	(154,122)
Payments for development and re-development of real estate assets	—	(2,817)
Payments for improvements of real estate assets	(8,547)	(10,178)
Payments for improvements of real estate assets from discontinued operations	—	(803)
Net cash provided by (used by) investing activities	\$43,727	\$(119,702)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on mortgages payable, including prepayment penalties	(63,481)	(52,143)
Proceeds from revolving lines of credit	53,017	293,350
Principal payments on revolving lines of credit	(107,517)	(102,900)
Proceeds from term loan	74,352	—
Proceeds from construction debt	—	3,124
Payment on financing liability	—	(7,900)
Repurchase of common shares	(615)	(6,253)
Proceeds from issuance of Series C preferred shares, net of issue costs	—	99,467
Repurchase of Series B preferred shares	—	(115,005)
Repurchase of partnership units	(482)	(5,982)
Distributions paid to common shareholders	(16,724)	(16,881)
Distributions paid to preferred shareholders	(3,411)	(5,333)
Distributions paid to noncontrolling interests – Unitholders of the Operating Partnership	(1,960)	(2,089)
Distributions paid to noncontrolling interests – consolidated real estate entities	(2,374)	(40)
Net cash provided by (used by) financing activities	\$(69,195)	\$81,415
NET INCREASE (DECREASE) IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	1,746	(10,554)

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CASH, CASH EQUIVALENTS, AND RESTRICTED CASH AT BEGINNING OF PERIOD	16,116	56,800
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH AT END OF PERIOD	\$17,862	\$46,246

See accompanying Notes to Condensed Consolidated Financial Statements.

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INVESTORS REAL ESTATE TRUST AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited, continued)

	(in thousands)	
	Six Months Ended	
	October 31,	
	2018	2017
SUPPLEMENTARY SCHEDULE OF NON-CASH INVESTING AND FINANCING		
ACTIVITIES		
Operating partnership units converted to shares	\$649	\$—
Decrease to accounts payable included within real estate investments	(329)	(2,106)
Notes and accounts receivable converted to equity	670	—
Construction debt reclassified to mortgages payable	—	23,300
 SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	\$17,059	\$17,122
See accompanying Notes to Condensed Consolidated Financial Statements.		

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INVESTORS REAL ESTATE TRUST AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

for the six months ended October 31, 2018 and 2017

NOTE 1 • ORGANIZATION

Investors Real Estate Trust, collectively with our consolidated subsidiaries (“IRET,” “we,” “us,” or “our”), is a real estate investment trust (“REIT”) focused on the ownership, management, acquisition, redevelopment, and development of apartment communities. As of October 31, 2018, we owned interests in 87 apartment communities consisting of 13,702 apartment homes.

NOTE 2 • BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

We conduct a majority of our business activities through our consolidated operating partnership, IRET Properties, A North Dakota Limited Partnership (the “Operating Partnership”), as well as through a number of other consolidated subsidiary entities. The accompanying condensed consolidated financial statements include our accounts and the accounts of all our subsidiaries in which we maintain a controlling interest, including the Operating Partnership. All intercompany balances and transactions are eliminated in consolidation. Our fiscal year currently ends on April 30. On September 20, 2018, our Board of Trustees approved a change in our fiscal year-end, beginning January 1, 2019, from April 30 to December 31. We will file a transition report on Form 10-K for the period ended December 31, 2018, in accordance with SEC rules and regulations, and all subsequent fiscal years, beginning in 2019, will be from January 1 to December 31. Our Sixth Restated Trustee's Regulations (Bylaws) reflecting this change in fiscal year-end is attached hereto as Exhibit 3.3.

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

PRIOR PERIOD FINANCIAL STATEMENT CORRECTION OF AN IMMATERIAL MISSTATEMENT

During the first quarter of fiscal year 2019, we identified certain adjustments required to correct balances within total equity related to noncontrolling interests in our joint venture entities. Related to our acquisition of additional ownership interest in the joint venture entities, noncontrolling interest - consolidated real estate entities was understated and common shares of beneficial interest was overstated beginning in fiscal year 2017. The adjustments did not impact total assets, total liabilities, revenue, net income, net income available to common shareholders, number of common shares, or earnings per share.

Based on an analysis of Accounting Standards Codification (“ASC”) 250 - “Accounting Changes and Error Corrections” (“ASC 250”), Staff Accounting Bulletin 99 - “Materiality” (“SAB 99”) and Staff Accounting Bulletin 108 - “Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements” (“SAB 108”), we determined that these errors were immaterial to the previously-issued financial statements. The misstatement was corrected in the condensed consolidated balance sheets as of April 30, 2018 and the condensed consolidated statements of equity as of April 30, 2017, October 31, 2017 and April 30, 2018.

The effect of these revisions on our condensed consolidated balance sheet is as follows:

	(in thousands)		
	As previously reported at April 30, 2018	Adjustment	As revised at April 30, 2018
Common shares of beneficial interest	\$907,843	\$ (7,746)	\$900,097
Noncontrolling interests - consolidated real estate entities	1,078	7,810	8,888
Redeemable noncontrolling interests - consolidated real estate entities	6,708	(64)	6,644

The effect of these revisions on our condensed consolidated statements of equity is as follows:

(in thousands)

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	As previously reported at April 30, 2017	Adjustment	As revised at April 30, 2017
Common shares of beneficial interest	\$916,121	\$ (7,216)	\$908,905
Nonredeemable noncontrolling interests	75,157	7,280	82,437

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	(in thousands)		
	As previously reported at October 31, 2017	Adjustment	As revised at October 31, 2017
Common shares of beneficial interest	\$910,683	\$ (7,216)	\$903,467
Nonredeemable noncontrolling interests	65,956	7,280	73,236

	(in thousands)		
	As previously reported at April 30, 2018	Adjustment	As revised at April 30, 2018
Common shares of beneficial interest	\$907,843	\$ (7,746)	\$900,097
Nonredeemable noncontrolling interests	74,090	7,810	81,900

UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Our interim condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) for interim financial information and the applicable rules and regulations of the Securities and Exchange Commission (“SEC”). Accordingly, certain disclosures accompanying annual consolidated financial statements prepared in accordance with U.S. GAAP are omitted. The year-end balance sheet data was derived from audited consolidated 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 our financial position, results of operations, and cash flows for the interim periods, have been included.

The current period’s results of operations are not necessarily indicative of results which ultimately may be achieved for the year. The interim condensed consolidated financial statements and accompanying notes thereto should be read in conjunction with the consolidated financial statements and accompanying notes included in our Annual Report on Form 10-K for the fiscal year ended April 30, 2018, as filed with the SEC on June 28, 2018.

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.

TAX CUTS AND JOBS ACT OF 2017

The Tax Cuts and Jobs Act of 2017 was passed on December 22, 2017. This Act includes a number of changes to the corporate income tax system, including (1) a reduction in the statutory federal corporate income tax rate from 35% to 21% for non-REIT “C” corporations, (2) changes to deductions for certain pass-through business income, and (3) potential limitations on interest expense, depreciation, and the deductibility of executive compensation. As a REIT, we generally will not be subject to federal income tax on our taxable income at the corporate level and do not believe that any of the changes from the 2017 Tax Cut and Jobs Act of 2017 will have a material impact on our consolidated financial statements. However, the impact of this Act is not yet fully known, and there can be no assurance that it will not have an adverse impact on our results of operations.

RECENT ACCOUNTING PRONOUNCEMENTS

The following table provides a brief description of recent accounting standards updates (“ASUs”).

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Standard	Description	Date of Adoption	Effect on the Financial Statements or Other Significant Matters
ASU 2014-09, Revenue from Contracts with Customers	This ASU will eliminate the transaction- and industry-specific revenue recognition guidance under current GAAP and replace it with a principle-based approach for determining revenue recognition. The standard outlines a five-step model whereby revenue is recognized as performance obligations within a contract are satisfied.	This ASU is effective for annual reporting periods beginning after December 15, 2017, as a result of a deferral of the effective date arising from the issuance of ASU 2015-14, Revenue from Contracts with Customers - Deferral of the Effective Date. We adopted the new standard effective May 1, 2018 using the modified retrospective approach.	The majority of our revenue is derived from rental income, which is scoped out from this standard and will be accounted for under ASC 840, Leases. Our other revenue streams, which were evaluated under this ASU, include but are not limited to other income from residents determined not to be within the scope of ASC 840 and gains and losses from real estate dispositions. Refer to the Revenues section below for information regarding the impact of adopting the standard on our condensed consolidated financial statements. We expect our residential leases, where we are the lessor, will continue to be accounted for as operating leases under the new standard. As a result, we do not expect significant changes in the accounting for lease revenue. For leases where we are the lessee, we will recognize a right of use asset and related lease liability on our consolidated balance sheets upon adoption. We are continuing to evaluate the impact the new standard may have on our consolidated financial statements.
ASU 2016-02, Leases	This ASU amends existing accounting standards for lease accounting, including by requiring lessees to recognize most leases on the balance sheet and making certain changes to lessor accounting.	This ASU is effective for annual reporting periods beginning after December 15, 2018. Early adoption is permitted.	The standard requires we present combined inflows and outflows of cash, cash equivalents, and restricted cash in the consolidated statement of cash flows. See additional disclosures regarding the required change below.
ASU 2016-15, Classification of Certain Cash Receipts and Cash Payments	This ASU addresses eight specific cash flow issues with the objective of reducing diversity in practice. The cash flow issues include debt prepayment or debt extinguishment costs and proceeds from the settlement of insurance claims.	This ASU is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. We adopted the new standard effective May 1, 2018.	Refer to the Revenues section below for information regarding the impact of adopting the standard on our condensed
ASU 2017-05, Other Income – Gains and Losses from the Derecognition of	This ASU clarifies the definition of an in-substance nonfinancial asset and changes the accounting for partial sales of nonfinancial	This ASU is effective for annual reporting periods beginning after December 15, 2017, including	

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<p>Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets</p>	<p>assets to be more consistent with the accounting for a sale of a business pursuant to ASU 2017-01. This ASU allows for either a retrospective or modified retrospective approach.</p>	<p>interim reporting periods within that reporting period. We adopted the new standard effective May 1, 2018 using the modified retrospective approach.</p>	<p>consolidated financial statements.</p>
<p>ASU 2018-10, Codification Improvements to Topic 842, Leases</p>	<p>This ASU was issued to increase shareholders' awareness of narrow aspects of the guidance issued in the amendments and to expedite the improvements under ASU 2016-02. This ASU allows lessors to account for lease and non-lease components, by class of underlying assets, as a single lease component if certain criteria are met. The new standard also indicates that companies are permitted to recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption in lieu of the modified retrospective approach and provides other practical expedients.</p>	<p>This ASU is effective for annual reporting periods beginning after December 15, 2018. Early adoption is permitted.</p>	<p>We are currently evaluating the impact the new standard may have on our consolidated financial statements.</p>
<p>ASU 2018-11, Leases: Targeted Improvements</p>	<p>indicates that companies are permitted to recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption in lieu of the modified retrospective approach and provides other practical expedients.</p>	<p>This ASU is effective for annual reporting periods beginning after December 15, 2018. Early adoption is permitted.</p>	<p>We are currently evaluating the impact the new standard may have on our consolidated financial statements.</p>

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Standard	Description	Date of Adoption	Effect on the Financial Statements or Other Significant Matters
ASU 2018-13, Fair Value Measurements (Topic 820) - Disclosure Framework - Changes to the Disclosure Requirement for Fair Value Measurements	This ASU eliminates certain disclosure requirements affecting all levels of measurement, and modifies and adds new disclosure requirements for Level 3 measurements.	This ASU is effective for annual reporting periods beginning after December 15, 2019. Early adoption is permitted.	We are currently evaluating the impact the new standard may have on our disclosures.
ASU 2018-15, Intangibles - Goodwill and Other - Internal-Use Software (Topic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That is a Service Contract	This ASU reduces the complexity for the accounting for costs of implementing a cloud computing service arrangement. The standard aligns various requirements for capitalizing implementation costs.	This ASU is effective for annual reporting periods beginning after December 15, 2019. Early adoption is permitted.	We are currently evaluating the impact the new standard may have on our consolidated financial statements.

RECLASSIFICATIONS

Certain previously reported amounts have been reclassified to conform to the current financial statement presentation. These reclassifications had no impact on net income as reported in the condensed consolidated statement of operations, total assets, liabilities, or equity as reported in the condensed consolidated balance sheets and total shareholders' equity. We report in discontinued operations the results of operations and the related gains or losses of properties that have either been disposed or classified as held for sale and for which the disposition represents a strategic shift that has or will have a major effect on our operations and financial results.

CASH, CASH EQUIVALENTS, AND RESTRICTED CASH

Effective May 1, 2018, we adopted ASU 2016-15, Classification of Certain Cash Receipts and Cash Payments which affects the presentation and disclosure of the statements of cash flows. Previously our consolidated statements of cash flows presented transfers between restricted cash and unrestricted cash as operating, financing, and investing cash activities based upon the required or intended purpose for the restricted cash. We revised our condensed consolidated statements of cash flows for the six months ended October 31, 2017 to conform to this presentation, and the effect of the revisions to net cash flows from operating and investing activities as previously reported for the six months ended October 31, 2017 are summarized in the following table:

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	(in thousands)		
	As previously reported	Impact of ASU 2016-15	As adjusted and currently reported October 31, 2017
Net cash provided by operating activities	\$26,932	\$801	\$27,733
Net cash provided by (used by) investing activities	(95,112)	(24,590)	(119,702)
Net cash provided by (used by) financing activities	81,825	(410)	81,415
Net increase (decrease) in cash, cash equivalents	13,645	(13,645)	—
Net increase (decrease) in cash, cash equivalents, and restricted cash	—	(10,554)	(10,554)
Cash and cash equivalents at beginning of period	28,819	(28,819)	—
Cash, cash equivalents, and restricted cash at beginning of period	—	56,800	56,800
Cash and cash equivalents at end of period	\$42,464		
Cash, cash equivalents, and restricted cash at end of period		\$3,782	\$46,246

	(in thousands)	
Balance sheet description	October 31, 2018	October 31, 2017
Cash and cash equivalents	12,777	42,464
Restricted cash	5,085	3,782
Total cash, cash equivalents and restricted cash	17,862	46,246

As of October 31, 2018, restricted cash consisted of \$5.1 million of escrows held by lenders for real estate taxes, insurance, and capital additions.

REVENUES

We adopted ASU 2014-09, Revenue from Contracts with Customers, as of May 1, 2018. We elected to apply the new standard to contracts that are not complete as of May 1, 2018. We also elected to omit disclosing the value of unsatisfied performance obligations for contracts with an original expected length of one year or less. Under the new standard, revenue is recognized in accordance with the transfer of goods and services to customers at an amount that reflects the consideration the company expects to be entitled for those goods and services.

We primarily lease multifamily apartments under operating leases generally with terms of one year or less. Rental revenues are recognized in accordance with ASC 840, Leases, using a method that represents a straight-line basis over the term of the lease. Rental income represents approximately 94.3% of our total revenues and includes gross market rent less adjustments for concessions, vacancy loss, and bad debt. Other property revenues represent the remaining 5.7% of our total revenue and are primarily driven by utility reimbursement from our residents and other fee income, which is typically recognized at a point in time.

Revenue streams that are included in ASU 2014-09 include:

Other property revenues: We recognize revenue for rental related income not included as a component of a lease, such as utility reimbursement and application fees, as earned, and have concluded that this is appropriate under the new standard.

Gains or losses on sales of real estate: Subsequent to the adoption of the new standard, a gain or loss is recognized when the criteria for derecognition of an asset are met, including when (1) a contract exists and (2) the buyer obtained control of the nonfinancial asset that was sold. As a result, we may recognize a gain on real estate disposition transactions that previously did not qualify as a sale or for full profit recognition under the previous accounting

standard.

We concluded that the adoption of the new standard required a cumulative adjustment of \$627,000 to the opening balance of retained earnings as of May 1, 2018, due to the sale of a group of properties in the prior fiscal year. The sale of properties was

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previously accounted for using the installment method. Under the installment method, we recorded a mortgage receivable net of the deferred gain on sale, which was to be recognized as payments were received. The gain on sale under the new revenue standard is recognized when control of the assets is transferred to the buyer. As a result of our adoption of the new standard, we recorded a cumulative adjustment to retained earnings and increased the mortgage receivable by \$627,000 to recognize the previously deferred gain on sale.

The following table presents the disaggregation of revenue streams of our rental income for the six months ended October 31, 2018:

Revenue Stream	Applicable Standard	(in thousands, except percentages)	
		Amount	Percent
		Six Months Ended October 31, 2018	
		of Revenue	of Revenue
Rental revenue	Leases	86,394	94.3 %
Other property revenue	Revenue Recognition	5,190	5.7 %
		91,584	100.0 %

IMPAIRMENT OF LONG-LIVED ASSETS

We periodically evaluate our long-lived assets, including 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, we compare 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. Reducing planned property holding periods may increase the likelihood of recording impairment losses.

During the six months ended October 31, 2018, we recorded no impairment charges.

During the six months ended October 31, 2017, we recognized impairment charges of \$256,000 on a parcel of land in Bismarck, ND. This property was written down to estimated fair value during the first quarter of fiscal year 2018 based on receipt of a market offer to purchase and our intent to dispose of the property. We disposed of the property during the second quarter of fiscal year 2018.

CHANGE IN DEPRECIABLE LIVES OF REAL ESTATE ASSETS

We review the estimated useful lives of our real estate assets on an ongoing basis. Prior to our strategic shift to become a multifamily-focused REIT, which began in fiscal year 2016, we operated in five segments (office, retail, industrial, healthcare and multifamily). Accordingly, our estimated useful lives represented a blend of these segments. During fiscal years 2016, 2017, and 2018, we disposed of the bulk of our office, retail, industrial, and healthcare portfolios. In the first quarter of fiscal year 2018, we determined it was appropriate to review and adjust our estimated useful lives to be specific to our remaining asset portfolio. Effective May 1, 2017, we changed the estimated useful lives of our real estate assets to better reflect the estimated periods during which they will be of economic benefit. Generally, the estimated lives of buildings and improvements that previously were 20-40 years have been decreased to 10-37 years, while those that were previously nine years were changed to 5-10 years. The effect of this

change in estimate for the six months ended October 31, 2017, was to increase depreciation expense by approximately \$20.3 million, decrease net income by \$20.3 million, and decrease earnings per share by \$0.15. Of the expense increase, \$9.0 million, or \$0.07 per share, represented depreciation on assets that were fully depreciated under the new estimated useful lives in the first quarter of fiscal year 2018.

MORTGAGE RECEIVABLE AND NOTES RECEIVABLE

In August 2017, we sold 13 multifamily properties in exchange for cash and a note secured by a mortgage on the assets. As of October 31, 2018, the remaining balance on the mortgage was \$10.5 million. The note bears an interest rate of 5.5% and matures in August 2020. Monthly payments are interest-only, with the principal balance payable at maturity. During the six

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months ended October 31, 2018 and 2017, we received and recognized approximately \$350,000 and \$119,000 of interest income, respectively. During the six months ended October 31, 2018, we received a payment of \$425,000 to pay down the balance of the mortgage receivable and released one of the 13 properties from the assets used to secure the mortgage.

In July 2017, we originated a \$16.2 million loan in a multifamily development located in New Hope, MN, a Minneapolis suburb. As of July 31, 2018, we had funded the full initial loan balance, which appears in other assets on our Condensed Consolidated Balance Sheets; however, we may fund additional amounts upon satisfaction of certain conditions set forth in the loan agreement. The note bears an interest rate of 6%, matures in July 2023, and provides us an option to purchase the development prior to the loan maturity date.

VARIABLE INTEREST ENTITIES

We have determined that our Operating Partnership and each of our less-than-wholly owned real estate partnerships is a variable interest entity (“VIE”), as the limited partners or the functional equivalent of limited partners lack substantive kick-out rights and substantive participating rights. We are the primary beneficiary of the VIEs, and the VIEs are required to be consolidated on our balance sheet because we have a controlling financial interest in the VIEs and have both the power to direct the activities of the VIEs that most significantly impact the economic performance of the VIEs as well as the obligation to absorb losses or the right to receive benefits from the VIEs that could potentially be significant to the VIEs. Because our Operating Partnership is a VIE, all of our assets and liabilities are held through a VIE.

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 our common shares of beneficial interest (“Common Shares”) outstanding during the period. We have issued restricted stock units (“RSUs”) under our 2015 Incentive Plan, which could have a dilutive effect on our earnings per share upon exercise of the RSUs. Other than the issuance of RSUs, we have no outstanding options, warrants, convertible stock or other contractual obligations requiring issuance of additional shares that would result in dilution of earnings. Under the terms of the Operating Partnership’s Agreement of Limited Partnership, limited partners have the right to require the Operating Partnership to redeem their limited partnership units (“Units”) any time following the first anniversary of the date they acquired such Units (“Exchange Right”). Upon the exercise of Exchange Rights, and in our sole discretion, we may issue Common Shares in exchange for Units on a one-for-one basis. 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 six months ended October 31, 2018 and 2017:

	(in thousands, except per share data)			
	Three Months Ended		Six Months Ended	
	October 31,	October 31,	October 31,	October 31,
	2018	2017	2018	2017
NUMERATOR				
Income (loss) from continuing operations – controlling interests	\$(4,558)	\$(679)	\$(2,153)	\$(14,330)
Income (loss) from discontinued operations – controlling interests	—	13,500	511	15,887
Net income (loss) attributable to controlling interests	(4,558)	12,821	(1,642)	1,557
Dividends to preferred shareholders	(1,706)	(2,812)	(3,411)	(5,098)
Redemption of preferred shares	—	(3,649)	—	(3,649)
Numerator for basic earnings (loss) per share – net income available to common shareholders	(6,264)	6,360	(5,053)	(7,190)
Noncontrolling interests – Operating Partnership	(722)	773	(587)	(871)
Numerator for diluted earnings (loss) per share	\$(6,986)	\$7,133	\$(5,640)	\$(8,061)
DENOMINATOR				
Denominator for basic earnings per share weighted average shares	119,396	120,144	119,320	120,282
Effect of redeemable operating partnership units	13,789	14,623	13,924	14,912

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Denominator for diluted earnings per share	133,185	134,767	133,244	135,194
Earnings (loss) per common share from continuing operations – basic and diluted	\$(0.05)	\$(0.06)	\$(0.04)	\$(0.19)
Earnings (loss) per common share from discontinued operations – basic and diluted	—	0.11	—	0.13
NET EARNINGS (LOSS) PER COMMON SHARE – BASIC & DILUTED	\$(0.05)	\$0.05	\$(0.04)	\$(0.06)

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Performance-based restricted stock awards of 253,000 and 115,000 for the three months ended October 31, 2018 and 2017, respectively, and 253,000 and 115,000 for the six months ended October 31, 2018 and 2017, respectively, were excluded from the calculation of diluted earnings per share because the assumed proceeds per share plus the average unearned compensation were greater than the average market price of the common stock for the periods presented and, therefore, were anti-dilutive. Refer to Note 13 - Share-Based Compensation for discussion of the terms for these awards.

NOTE 4 • EQUITY

Operating Partnership Units. Outstanding Units in the Operating Partnership were 13.7 million Units at October 31, 2018 and 14.1 million Units at April 30, 2018.

Common Shares and Equity Awards. Common Shares outstanding on October 31, 2018 and April 30, 2018, totaled 119.7 million and 119.5 million, respectively. There were 13,000 shares issued under our 2015 Incentive Award Plan during the three months ended October 31, 2018, with a total grant-date fair value of \$83,000. During the six months ended October 31, 2018, we issued 56,000 restricted common shares, with a total grant date fair value of \$347,000. During fiscal year 2018, there were no shares issued during the three months ended October 31, 2017. During the six months ended October 31, 2017, we issued 75,000 restricted Common Shares, with a total grant-date fair value of \$445,000. These shares are issued under our 2015 Incentive Award Plan for executive officer and trustee share-based compensation. These shares vest based on performance and service criteria.

Exchange Rights. Pursuant to the exercise of Exchange Rights, during the six months ended October 31, 2018, we redeemed 91,000 Units for an aggregate cost of \$482,000, at an average price per Unit of \$5.30. During the six months ended October 31, 2017, we redeemed 999,500 Units for an aggregate cost of \$6.0 million, at an average price per Unit of \$5.98. During the three and six months ended October 31, 2018, we redeemed 217,000 and 331,000 Units, respectively, in exchange for common shares in connection with Unitholders exercising their Exchange Rights, with a total book value of \$358,000 and \$649,000, respectively. During the three and six months ended October 31, 2017, we redeemed no Units in exchange for common shares.

Share Repurchase Program. On December 7, 2016, our Board of Directors authorized a share repurchase program to repurchase up to \$50 million of our Common Shares over a one-year period. On December 5, 2017, our Board of Trustees reauthorized this share repurchase program for an additional one-year period. See Note 15 - Subsequent Events for additional information regarding our recent reauthorization of the share repurchase program. Under this program, we may repurchase Common Shares in open-market purchases, including pursuant to Rule 10b5-1 and Rule 10b-18 plans, as determined by management and in accordance with the requirements of the SEC. The extent to which we repurchase our shares, and the timing of repurchases, will depend on a variety of factors, including market conditions, regulatory requirements, and other corporate considerations, as determined by the executive management team. This program may be suspended or discontinued at any time. During the six months ended October 31, 2018, we repurchased and retired 118,000 common shares for an aggregate cost of \$615,000, including commissions, at an average price per share of \$5.20. During the six months ended October 31, 2017, we repurchased and retired 1.1 million common shares for an aggregate cost of \$6.3 million, including commissions, at an average price per share of \$5.79. As of October 31, 2018, \$34.9 million remained available under the \$50 million authorized share repurchase program.

NOTE 5 • SEGMENT REPORTING

We operate in a single reportable segment, which includes the ownership, management, development, redevelopment, and acquisition of apartment communities. Each of our operating properties is considered a separate operating segment because each property earns revenues, incurs expenses, and has discrete financial information. Our chief operating decision-makers evaluate each property's operating results to make decisions about resources to be allocated and to assess performance. We do not group our operations based on geography, size, or type. Our apartment communities have similar long-term economic characteristics and provide similar products and services to our residents. No apartment community comprises more than 10% of consolidated revenues, profits, or assets.

Accordingly, our apartment communities are aggregated into a single reportable segment.

Prior to the third quarter of fiscal year 2018, we reported our results in two reportable segments: multifamily and healthcare. We sold substantially all of our healthcare portfolio during the third quarter of fiscal year 2018 and

classified it as discontinued operations (see Note 7 for additional information). Healthcare no longer meets the quantitative thresholds for reporting as a separate reportable segment and therefore is included in “all other” with other non-multifamily properties. As of July 31, 2018, we no longer owned any healthcare properties. Our executive management team comprises our chief operating decision-makers. This team measures the performance of our reportable segment based on net operating income (“NOI”), which we define as total real estate revenues less real estate

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expenses. Real estate expenses consist of property operating expenses and real estate tax expense and do not include property management expense. 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 operations that is unaffected by depreciation, amortization, financing, and general and administrative expenses. NOI does not represent cash generated by operating activities in accordance with U.S. 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 NOI for the multifamily reportable segment are summarized as follows for the three and six month periods ended October 31, 2018 and 2017, respectively, along with reconciliations to the condensed consolidated financial statements. Segment assets are also reconciled to total assets as reported in the condensed consolidated financial statements.

	(in thousands)		
Three Months Ended October 31, 2018	Multifamily	Other	Total
Real estate revenue	\$43,874	\$ 1,764	\$45,638
Real estate expenses	18,768	568	19,336
Net operating income	\$25,106	\$ 1,196	\$26,302
Property management expenses			(1,319)
Casualty loss			(225)
Depreciation and amortization			(19,191)
General and administrative expenses			(3,374)
Interest expense			(7,997)
Loss on debt extinguishment			(4)
Interest and other income			429
Income (loss) before gain on sale of real estate and other investments and income (loss) from discontinued operations			(5,379)
Gain (loss) on sale of real estate and other investments			(232)
Income (loss) from continuing operations			(5,611)
Income (loss) from discontinued operations			—
Net income (loss)			\$(5,611)

	(in thousands)		
Three Months Ended October 31, 2017	Multifamily	Other	Total
Real estate revenue	\$37,457	\$ 4,409	\$41,866
Real estate expenses	17,201	1,517	18,718
Net operating income	\$20,256	\$ 2,892	\$23,148
Property management expenses			(1,372)
Casualty loss			(115)
Depreciation and amortization			(17,270)
General and administrative expenses			(3,118)
Interest expense			(8,509)
Loss on debt extinguishment			(334)
Interest and other income			255
Income (loss) before gain on sale of real estate and other investments and income (loss) from discontinued operations			(7,315)
Gain (loss) on sale of real estate and other investments			5,324
Income (loss) from continuing operations			(1,991)
Income (loss) from discontinued operations			15,130
Net income (loss)			\$13,139

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	(in thousands)		
Six Months Ended October 31, 2018	Multifamily	Other	Total
Real estate revenue	\$86,963	\$ 4,621	\$91,584
Real estate expenses	37,254	1,611	38,865
Net operating income	\$49,709	\$ 3,010	\$52,719
Property management expenses			(2,686)
Casualty loss			(450)
Depreciation and amortization			(37,803)
Impairment of real estate investments			—
General and administrative expenses			(7,244)
Interest expense			(16,382)
Loss on debt extinguishment			(556)
Interest and other income			945
Income (loss) before gain on sale of real estate and other investments and income (loss) from discontinued operations			(11,457)
Gain (loss) on sale of real estate and other investments			8,992
Income (loss) from continuing operations			(2,465)
Income (loss) from discontinued operations			570
Net income (loss)			\$(1,895)

	(in thousands)		
Six Months Ended October 31, 2017	Multifamily	Other	Total
Real estate revenue	\$73,455	\$ 9,389	\$82,844
Real estate expenses	32,934	3,311	36,245
Net operating income	\$40,521	\$ 6,078	\$46,599
Property management expenses			(2,728)
Casualty loss			(600)
Depreciation and amortization			(42,608)
Impairment of real estate investments			(256)
General and administrative expenses			(7,120)
Interest expense			(16,640)
Loss on debt extinguishment			(533)
Interest and other income			483
Income (loss) before gain on sale of real estate and other investments and income (loss) from discontinued operations			(23,403)
Gain (loss) on sale of real estate and other investments			5,448
Income (loss) from continuing operations			(17,955)
Income (loss) from discontinued operations			17,815
Net income (loss)			\$(140)

Segment Assets and Accumulated Depreciation

Segment assets are summarized as follows as of October 31, 2018, and April 30, 2018, respectively, along with reconciliations to the condensed consolidated financial statements:

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	(in thousands)		
As of October 31, 2018	Multifamily	All Other	Total
Segment assets			
Property owned	\$1,580,260	\$57,812	\$1,638,072
Less accumulated depreciation	(328,075)	(16,940)	(345,015)
Total property owned	\$1,252,185	\$40,872	\$1,293,057
Cash and cash equivalents			12,777
Restricted cash			5,085
Other assets			29,769
Unimproved land			6,522
Mortgage loans receivable			10,530
Total Assets			\$1,357,740

	(in thousands)		
As of April 30, 2018	Multifamily	All Other	Total
Segment assets			