INVESTORS REAL ESTATE TRUST
Form 10-Q
December 10, 2009

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

Form 10-Q

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

For Quarter Ended October 31, 2009

Commission File Number 0-14851

INVESTORS REAL ESTATE TRUST
(Exact name of registrant as specified in its charter)

North Dakota	45-0311232
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

Post Office Box 1988
3015 16th Street SW, Suite 100
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 £ 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 December 7, 2009, it had 73,535,728 common shares of beneficial interest outstanding.

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PART I

ITEM 1. FINANCIAL STATEMENTS - SECOND QUARTER - FISCAL 2010
INVESTORS REAL ESTATE TRUST AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS (unaudited)

	(in thousands, except share data)	
	October 31, 2009	April 30, 2009
ASSETS		
Real estate investments		
Property owned	$ 1,749,489	$ 1,729,585
Less accumulated depreciation	(286,555)	(262,871)
	1,462,934	1,466,714
Unimproved land	5,966	5,701
Mortgage loans receivable, net of allowance of $3 and $3, respectively	159	160
Total real estate investments	1,469,059	1,472,575
Other assets		
Cash and cash equivalents	102,732	33,244
Marketable securities – available-for-sale	420	420
Receivable arising from straight-lining of rents, net of allowance of $873 and $842, respectively	16,588	16,012
Accounts receivable, net of allowance of $367 and $286, respectively	4,830	2,738
Real estate deposits	635	88
Prepaid and other assets	2,750	1,051
Intangible assets, net of accumulated amortization of $49,449 and $44,887, respectively	48,118	52,173
Tax, insurance, and other escrow	6,661	7,261
Property and equipment, net of accumulated depreciation of $1,109 and $957, respectively	1,450	1,015
Goodwill	1,392	1,392
Deferred charges and leasing costs, net of accumulated amortization of $12,243 and $11,010, respectively	17,273	17,122
TOTAL ASSETS	$ 1,671,908	$ 1,605,091
LIABILITIES AND EQUITY		
LIABILITIES		
Accounts payable and accrued expenses	$ 29,760	$ 32,773
Revolving lines of credit	6,594	5,500
Mortgages payable	1,060,131	1,070,158
Other	1,421	1,516
TOTAL LIABILITIES	1,097,906	1,109,947
COMMITMENTS AND CONTINGENCIES (NOTE 6)		
REDEEMABLE NONCONTROLLING INTERESTS – CONSOLIDATED REAL ESTATE ENTITIES	1,943	1,737
EQUITY		
Investors Real Estate Trust shareholders' equity		
	27,317	27,317

Preferred Shares of Beneficial Interest (Cumulative redeemable preferred shares, no par value, 1,150,000 shares issued and outstanding at October 31, 2009 and April 30, 2009, aggregate liquidation preference of $28,750,000)		
Common Shares of Beneficial Interest (Unlimited authorization, no par value, 73,502,152 shares issued and outstanding at October 31, 2009, and 60,304,154 shares issued and outstanding at April 30, 2009)	566,395	461,648
Accumulated distributions in excess of net income	(176,580)	(155,956)
Total Investors Real Estate Trust shareholders' equity	417,132	333,009
Noncontrolling interests – Operating Partnership (20,962,061 units at October 31, 2009 and 20,838,197 units at April 30, 2009)	143,260	148,199
Noncontrolling interests – consolidated real estate entities	11,667	12,199
Total equity	572,059	493,407
TOTAL LIABILITIES AND EQUITY	$ 1,671,908	$ 1,605,091

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 six months ended October 31, 2009 and 2008

	Three Months Ended October 31		Six Months Ended October 31	
	(in thousands, except per share data)			
	2009	2008	2009	2008
REVENUE				
Real estate rentals	$48,592	$48,857	$97,622	$96,514
Tenant reimbursement	11,004	10,716	22,795	21,905
TOTAL REVENUE	59,596	59,573	120,417	118,419
EXPENSES				
Interest	17,200	17,078	34,601	33,966
Depreciation/amortization related to real estate investments	14,432	13,480	28,500	26,798
Utilities	4,379	4,607	8,546	9,041
Maintenance	6,616	6,585	13,823	13,584
Real estate taxes	7,924	7,487	15,895	14,857
Insurance	955	754	1,928	1,504
Property management expenses	4,611	4,520	8,709	8,771
Administrative expenses	1,365	1,125	2,721	2,356
Advisory and trustee services	133	114	264	214
Other expenses	498	482	932	844
Amortization related to non-real estate investments	549	479	1,124	928
Impairment of real estate investments	860	0	860	0
TOTAL EXPENSES	59,522	56,711	117,903	112,863
Interest income	62	210	128	433
Other income	64	78	127	103
Income before gain on sale of other investments	200	3,150	2,769	6,092
Gain on sale of other investments	0	54	0	54
NET INCOME	200	3,204	2,769	6,146
Net loss (income) attributable to noncontrolling interests – Operating Partnership	59	(700)	(420)	(1,347)
Net loss (income) attributable to noncontrolling interests – consolidated real estate entities	26	19	(47)	82
Net income attributable to Investors Real Estate Trust	285	2,523	2,302	4,881
Dividends to preferred shareholders	(593)	(593)	(1,186)	(1,186)
NET (LOSS) INCOME AVAILABLE TO COMMON SHAREHOLDERS	$(308)	$1,930	$1,116	$3,695
NET INCOME PER COMMON SHARE – BASIC AND DILUTED	$.00	$.03	$.02	$.06

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 STATEMENT OF EQUITY (unaudited)
for the six months ended October 31, 2009 and 2008

(in thousands)

	NUMBER OF PREFERRED SHARES	PREFERRED SHARES	NUMBER OF COMMON SHARES	COMMON SHARES	ACCUMULATED DISTRIBUTIONS IN EXCESS OF NET INCOME	NONCONTROLLING INTERESTS	TOTAL EQUITY
Balance April 30, 2008	1,150	$ 27,317	57,732	$439,255	$ (122,498)	$ 173,557	$517,631
Net income attributable to Investors Real Estate Trust and nonredeemable noncontrolling interests					4,881	1,236	6,117
Distributions – common shares					(19,589)	(7,188)	(26,777)
Distributions – preferred shares					(1,186)		(1,186)
Distribution reinvestment plan			618	6,052			6,052
Shares issued			66	637			637
Partnership units issued						3,730	3,730
Redemption of units for common shares			297	1,927		(1,927)	0
Adjustments to redeemable noncontrolling interests				(160)			(160)
Other						443	443
Balance October 31, 2008	1,150	$ 27,317	58,713	$447,711	$ (138,392)	$ 169,851	$506,487
Balance April 30, 2009	1,150	$ 27,317	60,304	$461,648	$ (155,956)	$ 160,398	$493,407
Net income attributable to Investors Real Estate Trust and					2,302	435	2,737

nonredeemable noncontrolling interests							
Distributions – common shares					(21,740)	(7,133)	(28,873)
Distributions – preferred shares					(1,186)		(1,186)
Distribution reinvestment plan			615	5,207			5,207
Shares issued			12,415	98,706			98,706
Partnership units issued						2,888	2,888
Redemption of units for common shares			168	1,114		(1,114)	0
Adjustments to redeemable noncontrolling interests				(278)			(278)
Other				(2)		(547)	(549)
Balance October 31, 2009	1,150	$ 27,317	73,502	$566,395	$ (176,580)	$ 154,927	$572,059

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 six months ended October 31, 2009 and 2008

	Six Months Ended October 31 (in thousands)	
	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	$2,769	$6,146
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	30,335	28,235
Gain on sale of real estate, land and other investments	0	(54)
Impairment of real estate investments	860	0
Bad debt expense	818	681
Changes in other assets and liabilities:		
Increase in receivable arising from straight-lining of rents	(668)	(1,288)
(Increase) decrease in accounts receivable	(1,281)	1,073
Increase in prepaid and other assets	(1,699)	(1,464)
Decrease in tax, insurance and other escrow	600	2,460
Increase in deferred charges and leasing costs	(1,959)	(2,804)
Decrease in accounts payable, accrued expenses, and other liabilities	(2,845)	(8,470)
Net cash provided by operating activities	26,930	24,515
CASH FLOWS FROM INVESTING ACTIVITIES		
Net (payments) proceeds of real estate deposits	(547)	1,293
Principal proceeds on mortgage loans receivable	1	13
Proceeds from sale of real estate and other investments	34	67
Insurance proceeds received	625	997
Payments for acquisitions and improvements of real estate investments	(21,673)	(35,870)
Net cash used by investing activities	(21,560)	(33,500)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from sale of common shares, net of issue costs	98,556	637
Proceeds from mortgages payable	77,335	31,188
Principal payments on mortgages payable	(86,245)	(28,933)
Principal payments on revolving lines of credit and other debt	(15,523)	(35)
Proceeds from noncontrolling partner – consolidated real estate entities	0	717
Proceeds from revolving lines of credit and other debt	15,500	15,000
Repurchase of fractional shares and partnership units	(2)	0
Distributions paid to common shareholders, net of reinvestment of $4,800 and $5,671, respectively	(16,940)	(13,918)
Distributions paid to preferred shareholders	(1,186)	(1,186)
Distributions paid to noncontrolling interests – Unitholders of the Operating Partnership, net of reinvestment of $407 and $381, respectively	(6,726)	(6,807)
Distributions paid to noncontrolling interests – consolidated real estate entities	(547)	(116)
Distributions paid to redeemable noncontrolling interest – consolidated real estate entities	(104)	(30)
Redemption of partnership units	0	(158)
Net cash provided (used) by financing activities	64,118	(3,641)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	69,488	(12,626)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	33,244	53,481

CASH AND CASH EQUIVALENTS AT END OF PERIOD	$102,732	$40,855

(continued)

INVESTORS REAL ESTATE TRUST AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited, continued)
for the six months ended October 31, 2009 and 2008

	Six Months Ended October 31 (in thousands)	
	2009	2008
SUPPLEMENTARY SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES FOR THE PERIOD		
Distribution reinvestment plan	$ 4,800	$ 5,671
Operating partnership distribution reinvestment plan	407	381
Assets acquired through the issuance of operating partnership units	2,888	3,730
Operating partnership units converted to shares	1,114	1,927
Accounts payable included within real estate investments	(19)	1,358
Adjustments to redeemable noncontrolling interests	278	160
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the period for:		
Interest on mortgages	33,612	30,656
Interest other	170	19
	$ 33,782	$ 30,675

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 six months ended October 31, 2009 and 2008

NOTE 1 • ORGANIZATION

Investors Real Estate Trust ("IRET" or the "Company") is a self-advised real estate investment trust engaged in acquiring, owning and leasing multi-family and commercial real estate. IRET has elected to be taxed as a Real Estate Investment Trust ("REIT") under Sections 856-860 of the Internal Revenue Code of 1986, as amended. REITs are subject to a number of organizational and operational requirements, including a requirement to distribute 90% of ordinary taxable income to shareholders, and, generally, are not subject to federal income tax on net income. IRET's multi-family residential properties and commercial properties are located mainly in the states of North Dakota and Minnesota, but also in the states of Colorado, Idaho, Iowa, Kansas, Montana, Missouri, Nebraska, South Dakota, Texas, Michigan and Wisconsin. As of October 31, 2009, IRET owned 77 multi-family residential properties with 9,669 apartment units and 169 commercial properties, consisting of office, medical, industrial and retail properties, totaling 11.8 million net rentable square feet. IRET conducts a majority of its business activities through its consolidated operating partnership, IRET Properties, a North Dakota Limited Partnership (the "Operating Partnership"), as well as through a number of other consolidated subsidiary entities.

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

NOTE 2 • BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

The accompanying condensed consolidated financial statements include the accounts of IRET and all its subsidiaries in which it maintains a controlling interest. All intercompany balances and transactions are eliminated in consolidation. The Company's fiscal year ends April 30th. The Company has evaluated subsequent events through December 10, 2009, and has determined that there were no subsequent events or transactions which would require recognition or disclosure in the financial statements.

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 77.8% and 74.3%, respectively, as of October 31, 2009 and April 30, 2009. The limited partners have a redemption option that they may exercise. Upon exercise of the redemption option by the limited partners, IRET has the choice of redeeming the limited partners' interests ("Units") for IRET common shares of beneficial interest, on a one-for-one basis, or making a cash payment to the unitholder. The redemption generally may be exercised by the limited partners at any time after the first anniversary of the date of the acquisition of the Units (provided, however, that in general not more than two redemptions by a limited partner may occur during each calendar year, and each limited partner may not exercise the redemption for less than 1,000 Units, or, if such limited partner holds less than 1,000 Units, for all of the Units held by such limited partner). The Operating Partnership and some limited partners have contractually agreed to a holding period of greater than one year and/or a greater number of redemptions during a calendar year.

The condensed consolidated financial statements also reflect the ownership by the Operating Partnership of certain joint venture entities in which the Operating Partnership has a general partner or controlling interest. These entities are consolidated into IRET's other operations, with 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 are omitted. The year-end balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America. In the opinion of management, all adjustments, consisting solely of normal recurring adjustments, necessary for the fair presentation of the Company's financial position, results of operations and cash flows for the interim periods have been included.

The current period's results of operations are not necessarily indicative of results which ultimately may be achieved for the year. The interim condensed consolidated financial statements and notes thereto should be read in conjunction with the consolidated

financial statements and notes thereto included in the Company's Current Report on Form 8-K for the fiscal year ended April 30, 2009, filed with the SEC on September 18, 2009.

RECLASSIFICATIONS

Certain previously reported amounts have been reclassified to conform to the current financial statement presentation. As a result of the adoption of the amended guidance contained in ASC 810, Consolidation, as described below in Recent Accounting Pronouncements, we:

- reclassified to noncontrolling interests - consolidated real estate entities and noncontrolling interests - Operating Partnership, both of which are components of equity, $11.7 million and $143.3 million at October 31, 2009, and $12.2 million and $148.2 million at April 30, 2009, respectively, which amounts were previously reported as minority interests on our condensed consolidated balance sheets;

- reported as separate captions within our condensed consolidated statements of operations the following: net income (including net income attributable to noncontrolling interests and net income attributable to Investors Real Estate Trust); net income (loss) attributable to noncontrolling interests - consolidated real estate entities; net income attributable to noncontrolling interests - Operating Partnership; and net income attributable to Investors Real Estate Trust, of $2.8 million, $47,000, $420,000 and $2.3 million, respectively, for the six months ended October 31, 2009; $6.1 million, $(82,000), $1.3 million and $4.9 million, respectively, for the six months ended October 31, 2008; $200,000, $(26,000), $(59,000) and $285,000, respectively, for the three months ended October 31, 2009 and $3.2 million, $(19,000), $700,000 and $2.5 million for the three months ended October 31, 2008;

- utilized net income including noncontrolling interests of $2.8 million for the six months ended October 31, 2009 and $6.1 million for the six months ended October 31, 2008 as the starting point on our condensed consolidated statements of cash flows in order to reconcile net income to cash flows from operating activities, rather than beginning with net income excluding noncontrolling interests; and

- presented as "redeemable noncontrolling interest" in the mezzanine section of the Company's condensed consolidated balance sheets as of October 31, 2009 and April 30, 2009 the fair value of the noncontrolling interest in a joint venture of the Company in which the Company's unaffiliated partner, at its election, can 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.

These reclassifications had no effect on previously reported net income attributable to IRET, or net cash flows from operating activities. Also, net income per common share continues to be based on net income attributable to IRET.

RECENT ACCOUNTING PRONOUNCEMENTS

Effective July 1, 2009, the Financial Accounting Standards Board ("FASB") established the Accounting Standards Codification ("ASC") as the primary source of authoritative generally accepted accounting principles ("GAAP") recognized by the FASB to be applied to nongovernmental entities. Although the establishment of the ASC did not change current GAAP, it did change the way we refer to GAAP throughout this document to reflect the updated referencing convention.

Effective May 1, 2009, the Company adopted FASB amended guidance that characterized ownership interests in a subsidiary that are held by owners other than the parent are noncontrolling interests (which were previously reported on the consolidated balance sheet as "minority interest"). Under the amended guidance, noncontrolling interest

represents the portion of equity in a subsidiary not attributable, directly or indirectly, to a parent. Such noncontrolling interests are reported on the consolidated balance sheets within equity, separately from the Company's equity. Revenues, expenses and net income or loss attributable to both the Company and noncontrolling interests are reported on the consolidated statements of operations. The Company will classify any securities that are redeemable for cash or other assets at the option of the holder, or not solely within the control of the Company, outside of permanent equity in the consolidated balance sheet. The Company will make this determination based on terms in the applicable agreements, specifically in relation to redemption provisions. With respect to noncontrolling interests for which the Company has a choice to settle the contract by delivery of its own shares, the Company evaluates whether it controls the actions or events necessary to issue the maximum number of common shares that could be required to be delivered at the time of settlement of the contract to determine whether the noncontrolling interests are permanent equity.

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The Company has concluded that for its noncontrolling interests that allow for redemption in either cash or Company shares (i.e., the limited partnership units of the Operating Partnership), all such provisions are solely within its control. As a result of its evaluation, the Company has determined that all of these noncontrolling interests qualify as permanent equity. As of October 31, 2009, the Operating Partnership's noncontrolling interests have a redemption value of approximately $175.5 million (based on the Company's closing common share price on the NASDAQ Global Select Market on that date of $8.37), which represents the amount that would be paid to the Operating Partnership's outside noncontrolling limited partners. The Company has one joint venture which allows the Company's unaffiliated partner, at its election, to 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. The Company is not aware of any intent of the joint venture partner to exercise this option. However, because the redemption of this interest is not solely within the control of the Company, the related noncontrolling interest is presented as "redeemable noncontrolling interest" in the mezzanine section of the Company's condensed consolidated balance sheets as of October 31, 2009 and April 30, 2009.

In December 2007, the FASB issued an update to its guidance on accounting for business combinations. The amended guidance significantly changes the accounting for and reporting of business combination transactions in consolidated financial statements. The amended guidance requires an acquiring entity to recognize acquired assets and liabilities assumed in a transaction at fair value as of the acquisition date, changes the disclosure requirements for business combination transactions and changes the accounting treatment for certain items, including contingent consideration agreements which are required to be recorded at acquisition date fair value and acquisition costs which are required to be expensed as incurred. The Company adopted this guidance on May 1, 2009. The Company believes that such adoption could materially impact its future financial results to the extent that it acquires significant amounts of real estate, as related acquisition costs will be expensed as incurred compared to the Company's former practice of capitalizing such costs and amortizing them over the estimated useful life of the assets acquired.

In September 2006, the FASB issued guidance that defines fair value, establishes a framework for measuring fair value in GAAP and expands disclosures about fair value measurements. The guidance was effective for the Company on May 1, 2008; however, the FASB deferred the effective date for certain non-financial assets and liabilities not re-measured at fair value on a recurring basis to fiscal years beginning after November 15, 2008, or, for the Company, its first quarter of fiscal year 2010. The adoption of the guidance pertaining to non-financial assets and liabilities by the Company on May 1, 2009 did not have a material impact on the Company's consolidated financial statements.

GAAP establishes a valuation hierarchy for disclosure of the inputs to valuation used to measure fair value. This hierarchy prioritizes the inputs into three broad levels as follows. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are quoted prices for similar assets and liabilities in active markets or inputs that are observable for the asset or liability, either directly or indirectly through market corroboration, for substantially the full term of the financial instrument. Level 3 inputs are unobservable inputs based upon our own assumptions used to measure assets and liabilities at fair value. A financial asset or liability's classification within the hierarchy is determined based on the lowest level of input that is significant to the fair value measurement. At October 31, 2009, our marketable securities are carried at fair value measured on a recurring basis. Fair values are determined through the use of unadjusted quoted prices in active markets, which are inputs that are classified as Level 1 in the valuation hierarchy.

In June 2008, the FASB issued guidance that states that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings per share ("EPS") pursuant to the two-class method. The amended guidance is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those years. All prior-period EPS data presented shall be adjusted retrospectively (including interim financial statements, summaries of earnings, and selected financial data) to conform with the provisions of the

amended guidance. Early application is not permitted. The Company currently has no unvested share-based payment awards outstanding, but it is possible that in the future some may be granted under its 2008 Incentive Award Plan approved by shareholders in September 2008. The Company's adoption of this guidance on May 1, 2009 did not impact the Company's EPS calculations.

In May 2009, the FASB issued new guidance on subsequent events that establishes the general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued. The new guidance was effective for interim and financial periods ending after June 15, 2009. The Company's adoption of the new guidance in the first quarter of its fiscal year 2010 did not have a material impact on its consolidated financial condition or results of operations. For the quarterly period ended October 31, 2009, the Company has considered subsequent events through December 10, 2009, which is the date its consolidated financial statements were filed with the Securities and Exchange Commission on Form 10-Q.

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In June 2009, the FASB issued new guidance that amends the existing guidance as follows: a) to require an enterprise to perform an analysis to determine whether the enterprise's variable interest or interests give it a controlling financial interest in a variable interest entity, identifying the primary beneficiary of a variable interest entity, b) to require ongoing reassessment of whether an enterprise is the primary beneficiary of a variable interest entity, rather than only when specific events occur, c) to eliminate the quantitative approach previously required for determining the primary beneficiary of a variable interest, d) to amend certain guidance for determining whether an entity is a variable interest entity, e) to add an additional reconsideration event when changes in facts and circumstances pertinent to a variable interest entity occur, f) to eliminate the exception for troubled debt restructuring regarding variable interest entity reconsideration, and g) to require advanced disclosures that will provide users of financial statements with more transparent information about an enterprise's involvement in a variable interest entity. The new guidance is effective for the first annual reporting period that begins after November 15, 2009. The Company is currently evaluating the impact that the adoption of this guidance will have on the Company's consolidated financial statements.

IMPAIRMENT OF LONG-LIVED ASSETS

The Company periodically evaluates its long-lived assets, including its investments in real estate, for impairment indicators. The judgments regarding the existence of impairment indicators are based on factors such as operational performance, market conditions, expected holding period of each asset and legal and environmental concerns. If indicators exist, the Company compares the expected future undiscounted cash flows for the long-lived asset against the carrying amount of that asset. If the sum of the estimated undiscounted cash flows is less than the carrying amount of the asset, an impairment loss is recorded for the difference between the estimated fair value and the carrying amount of the asset. 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 six months ended October 31, 2009, the Company incurred a loss of approximately $860,000 due to impairment of two properties. The Company recorded a charge for impairment of approximately $152,000 on its former headquarters building in Minot, North Dakota, based upon receipt of a market offer to purchase. The Company also recorded an impairment charge of approximately $708,000 on a retail property located in Kentwood, Michigan. This property's tenant has vacated the premises but continues to pay rent under a lease agreement that will expire on October 29, 2010. Broker representations and market data for this retail property provided the basis for the impairment charge. During the six months ended October 31, 2008, the Company incurred no losses due to impairment.

IDENTIFIED INTANGIBLE ASSETS AND INTANGIBLE 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 six months ended October 31, 2009 and 2008, respectively, the Company added approximately $656,000 and $618,000 of new intangible assets and $20,000 and $54,000 of new intangible liabilities. The weighted average lives of the intangible assets and intangible liabilities acquired in the six months ended October 31, 2009 and 2008 are 7.3 years and 0.9 years, respectively. Amortization of intangibles related to above or below-market leases is recorded in real estate rentals in the consolidated statements of operations. Amortization of other intangibles is recorded in depreciation/amortization related to real estate investments in the 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 October 31, 2009 and April 30, 2009 were as follows:

	(in thousands)	
	October 31, 2009	April 30, 2009
Identified intangible assets (included in intangible assets):		
Gross carrying amount	$97,567	$ 97,060
Accumulated amortization	(49,449)	(44,887)
Net carrying amount	$48,118	$ 52,173
Indentified intangible liabilities (included in other liabilities):		
Gross carrying amount	$2,659	$ 2,638
Accumulated amortization	(2,238)	(2,122)
Net carrying amount	$421	$ 516

The effect of amortization of acquired below-market leases and acquired above-market leases on rental income was approximately $(14,000) and $63,000 for the three months ended October 31, 2009 and 2008, respectively, and $(26,000) and $123,000 for the six months ended October 31, 2009 and 2008, respectively. 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:

Year Ended April 30,	(in thousands)
2011	$ 59
2012	46
2013	28
2014	29
2015	12

Amortization of all other identified intangible assets (a component of depreciation and amortization expense) was $2.3 million and $2.6 million for the three months ended October 31, 2009 and 2008, respectively, and $4.6 million and $5.3 million for the six months ended October 31, 2009 and 2008, respectively. The estimated annual amortization of all other identified intangible assets for each of the five succeeding fiscal years is as follows:

Year Ended April 30,	(in thousands)
2011	$ 6,394
2012	4,387
2013	3,413
2014	3,007
2015	2,649

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 in accordance with the provisions of ASC 350, Intangibles – Goodwill and Other. Goodwill 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. Goodwill book values as of October 31, 2009 and April 30, 2009 were $1.4

million. The annual review at April 30, 2009 indicated no impairment and there was no indication of impairment at October 31, 2009.

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

NOTE 3 • EARNINGS PER SHARE

Basic earnings per share is computed by dividing net income available to common shareholders by the weighted average number of common shares outstanding during the period. The Company has no outstanding options, warrants, convertible stock or other contractual obligations requiring issuance of additional common shares that would result in a dilution of earnings. While Units can be

exchanged for common shares on a one-for-one basis after a minimum holding period of one year, the exchange of Units for common shares has no effect on net income per share, as Unitholders and common shareholders effectively share equally in the net income of the Operating Partnership. The following table presents a reconciliation of the numerator and denominator used to calculate basic and diluted earnings per share reported in the condensed consolidated financial statements for the three and six months ended October 31, 2009 and 2008:

	Three Months Ended October 31		Six Months Ended October 31	
	(in thousands, except per share data)			
	2009	2008	2009	2008
NUMERATOR				
Net income attributable to Investors Real Estate Trust	$285	$2,523	$2,302	$4,881
Dividends to preferred shareholders	(593)	(593)	(1,186)	(1,186)
Numerator for basic earnings per share – net (loss) income available to common shareholders	(308)	1,930	1,116	3,695
Noncontrolling interests – Operating Partnership	(59)	700	420	1,347
Numerator for diluted earnings per share	$(367)	$2,630	$1,536	$5,042
DENOMINATOR				
Denominator for basic earnings per share - weighted average shares	66,160	58,374	64,276	58,145
Effect of convertible operating partnership units	21,002	21,294	20,908	21,296
Denominator for diluted earnings per share	87,162	79,668	85,184	79,441
NET INCOME PER COMMON SHARE – BASIC AND DILUTED	$.00	$.03	$.02	$.06

NOTE 4 • EQUITY

During the second quarter of fiscal year 2010, IRET completed a public offering of 9,200,000 common shares of beneficial interest at $8.25 per share (before underwriting discounts and commissions). Proceeds of the offering included in equity totaled $72,105,000 after deducting underwriting discounts and commissions but before deducting offering expenses. During the first quarter of fiscal year 2010, IRET completed a public offering of 3,000,000 common shares of beneficial interest at $8.70 per share (before underwriting discounts and commissions). Proceeds of the offering included in equity totaled $24,795,000 after deducting underwriting discounts and commissions but before deducting offering expenses.

As of October 31, 2009, approximately 168,000 Units have been converted to common shares during fiscal year 2010, with a total value of approximately $1.1 million included in equity, and approximately 7,000 common shares have been issued under the Company's 401(k) plan, with a total value of approximately $58,000 included in equity. Approximately 689,000 additional common shares have been issued under the Company's Distribution Reinvestment and Share Purchase Plan during the six months ended October 31, 2009 with a total value of $5.8 million included in equity.

NOTE 5 • SEGMENT REPORTING

IRET reports its results in five reportable segments: multi-family residential properties, and commercial office, medical (including senior housing), industrial and retail properties. The Company's reportable segments are aggregations of similar properties. The accounting policies of each of these segments are the same as those described

in Note 2, which presents the measure(s) used by the chief operating decision maker for purposes of assessing segment performance.

IRET measures the performance of its segments based on net operating income ("NOI"), which the Company defines as total revenues less property operating expenses and real estate taxes. 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 six month periods ended October 31, 2009 and 2008, 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.

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	(in thousands)					
Three Months Ended October 31, 2009	Multi-Family Residential	Commercial-Office	Commercial-Medical	Commercial-Industrial	Commercial-Retail	Total
Real estate revenue	$19,256	$ 20,483	$ 13,231	$ 3,339	$ 3,287	$59,596
Real estate expenses	9,139	9,086	3,961	1,202	1,097	24,485
Net operating income	$10,117	$ 11,397	$ 9,270	$ 2,137	$ 2,190	35,111
Interest						(17,200)
Depreciation/amortization						(14,981)
Administrative, advisory and trustee fees						(1,498)
Other expenses						(498)
Impairment of real estate investment						(860)
Other income						126
Net income						$200

	(in thousands)					
Three Months Ended October 31, 2008	Multi-Family Residential	Commercial-Office	Commercial-Medical	Commercial-Industrial	Commercial-Retail	Total
Real estate revenue	$19,402	$ 20,723	$ 12,960	$ 2,975	$ 3,513	$59,573
Real estate expenses	8,929	9,203	3,863	802	1,156	23,953
Net operating income	$10,473	$ 11,520	$ 9,097	$ 2,173	$ 2,357	35,620
Interest						(17,078)
Depreciation/amortization						(13,959)
Administrative, advisory and trustee fees						(1,239)
Other expenses						(482)
Other income						288
Gain on sale of other investments						54
Net income						$3,204

	(in thousands)					
Six Months Ended October 31, 2009	Multi-Family Residential	Commercial-Office	Commercial-Medical	Commercial-Industrial	Commercial-Retail	Total
Real estate revenue	$38,339	$ 41,649	$ 26,949	$ 6,734	$ 6,746	$120,417
Real estate expenses	18,373	18,533	7,654	2,153	2,188	48,901
Net operating income	$19,966	$ 23,116	$ 19,295	$ 4,581	$ 4,558	71,516
Interest						(34,601)
Depreciation/amortization						(29,624)
Administrative, advisory and trustee fees						(2,985)
Other expenses						(932)
Impairment of real estate investment						(860)
Other income						255
Net income						$2,769

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Six Months Ended October 31, 2008	Multi-Family Residential	Commercial-Office	Commercial-Medical	Commercial-Industrial	Commercial-Retail	Total
	(in thousands)					
Real estate revenue	$38,003	$ 41,529	$ 25,825	$ 6,071	$ 6,991	$118,419
Real estate expenses	17,654	18,647	7,625	1,535	2,296	47,757
Net operating income	$20,349	$ 22,882	$ 18,200	$ 4,536	$ 4,695	70,662
Interest						(33,966)
Depreciation/amortization						(27,726)
Administrative, advisory and trustee fees						(2,570)
Other expenses						(844)
Other income						536
Gain on sale of other investments						54
Net income						$6,146

Segment Assets and Accumulated Depreciation

Segment assets are summarized as follows as of October 31, 2009, and April 30, 2009, along with reconciliations to the condensed consolidated financial statements:

As of October 31, 2009	Multi-Family Residential	Commercial-Office	Commercial-Medical	Commercial-Industrial	Commercial-Retail	Total
	(in thousands)					
Segment Assets						
Property owned	$546,577	$ 580,291	$ 390,768	$ 113,168	$ 118,685	$1,749,489
Less accumulated depreciation/amortization	(123,183)	(80,764)	(48,124)	(14,162)	(20,322)	(286,555)
Total property owned	$423,394	$ 499,527	$ 342,644	$ 99,006	$ 98,363	1,462,934
Cash and cash equivalents						102,732
Marketable securities						420
Receivables and other assets						99,697
Unimproved land						5,966
Mortgage loans receivable, net of allowance						159
Total Assets						$1,671,908

As of April 30, 2009	Multi-Family Residential	Commercial-Office	Commercial-Medical	Commercial-Industrial	Commercial-Retail	Total
	(in thousands)					
Segment assets						
Property owned	$542,547	$ 571,565	$ 388,219	$ 108,103	$ 119,151	$1,729,585
Less accumulated depreciation/amortization	(115,729)	(72,960)	(42,345)	(12,847)	(18,990)	(262,871)
Total property owned	$426,818	$ 498,605	$ 345,874	$ 95,256	$ 100,161	1,466,714
Cash and cash equivalents						33,244

Marketable securities	420
Receivables and other assets	98,852
Unimproved land	5,701
Mortgage loans receivable, net of allowance	160
Total Assets	$1,605,091

NOTE 6 • COMMITMENTS AND CONTINGENCIES

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

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

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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 October 31, 2009, the total property cost of the 26 properties subject to purchase options was approximately $201.6 million, and the total gross rental revenue from these properties was approximately $9.8 million for the six months ended October 31, 2009.

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

Restrictions on Taxable Dispositions. Approximately 134 of IRET's properties, consisting of approximately 7.5 million square feet of the Company's combined commercial segments' properties and 4,316 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 $884.9 million at October 31, 2009. The restrictions on taxable dispositions are effective for varying periods. The terms of these agreements generally prevent the Company from selling the properties in taxable transactions. The Company does not believe that the agreements materially affect the conduct of the Company's business or decisions whether to dispose of restricted properties during the restriction period because the Company generally holds these and the Company's other properties for investment purposes, rather than for sale. Historically, however, where IRET has deemed it to be in the shareholders' best interests to dispose of restricted properties, it has done so through transactions structured as tax-deferred transactions under Section 1031 of the Internal Revenue Code.

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

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 October 31, 2009, the Company is committed to fund approximately $7.7 million in tenant improvements, within approximately the next 12 months.

Construction interest capitalized for the three month periods ended October 31, 2009 and 2008, respectively, was approximately $0 and $355,000 for development projects completed and in progress. Construction interest capitalized for the six months periods ended October 31, 2009 and 2008, respectively, was approximately $0 and $698,000 for development projects completed and in progress.

NOTE 7 • DISCONTINUED OPERATIONS

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. There were no properties classified as discontinued operations during the six months ended October 31, 2009 and 2008.

NOTE 8 • ACQUISITIONS

During the second quarter of fiscal year 2010, IRET acquired two properties: an approximately 42,180 square foot showroom/warehouse property located in a western suburb of Des Moines, Iowa, triple-net leased to a single tenant, for which the Company paid a total of approximately $3.4 million, a portion of which was paid in Units valued at a total of approximately $2.9 million, or $10.25 per unit, with the remainder paid in cash; and an approximately 15,000 square foot, 2-story office building on 1.5 acres located near IRET's corporate headquarters building in Minot, North Dakota, for a total of $2.4 million, a portion of which the Company paid in Units valued at a total of approximately $90,000, with the remainder paid in cash. IRET had no development projects placed in service or dispositions during the second quarter of fiscal year 2010. During the first quarter of fiscal year 2010, IRET had no acquisitions, development projects placed in service or dispositions.

The following table details the Company's acquisitions during the six months ended October 31, 2009:

	(in thousands)			
Acquisitions	Land	Building	Intangible Assets	Acquisition Cost
Commercial Property - Office				
15,000 sq. ft. Minot 2505 16th Street SW – Minot, ND	$372	$1,724	$ 304	$ 2,400
Commercial Property - Industrial				
42,180 sq. ft. Clive 2075 NW 94th Street – Clive, IA	408	2,610	332	3,350
Total Property Acquisitions	$780	$4,334	$ 636	$ 5,750

NOTE 9 • MORTGAGES PAYABLE

The Company's mortgages payable 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. Interest rates on mortgages payable range from 3.04% to 9.75%, and the mortgages have varying maturity dates from the current fiscal year through May 31, 2035.

Of the mortgages payable, the balances of fixed rate mortgages totalled $1.1 billion at October 31, 2009 and April 30, 2009. The balances of variable rate mortgages totalled $5.8 million and $9.6 million as of October 31, 2009, and April 30, 2009, 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 October 31, 2009, the weighted average rate of interest on the Company's mortgage debt was 6.27%, compared to 6.30% on April 30, 2009. The aggregate amount of required future principal payments on mortgages payable as of October 31, 2009, is as follows:

Six Months Ended October 31, 2009	(in thousands)
2010 (remainder)	$ 59,150
2011	104,906
2012	114,235
2013	49,480
2014	58,509
Thereafter	673,851
Total payments	$ 1,060,131

NOTE 10 • FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used to estimate the fair value of each class of financial instruments.

Mortgage Loans Receivable. Fair values are based on the discounted value of future cash flows expected to be received for a loan using current rates at which similar loans would be made to borrowers with similar credit risk and the same remaining maturities. Terms are short term in nature and carrying value approximates the estimated fair value.

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

Marketable Securities. The fair values of these instruments are estimated based on quoted market prices for the security. At October 31, 2009, marketable securities available-for-sale consisted of bank certificates of deposit with maturities of less than one year.

Other Debt. The fair value of other debt is estimated based on the discounted cash flows of the loan using current market rates.

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.

The estimated fair values of the Company’s financial instruments as of October 31, 2009 and April 30, 2009, are as follows:

	(in thousands)			
	October 31, 2009		April 30, 2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
FINANCIAL ASSETS				
Mortgage loans receivable	$159	$159	$160	$160
Cash and cash equivalents	102,732	102,732	33,244	33,244
Marketable securities - available-for-sale	420	420	420	420
FINANCIAL LIABILITIES				
Other debt	1,000	1,142	1,000	1,129
Mortgages payable	1,060,131	1,319,697	1,070,158	1,301,071

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, can 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 consolidated balance sheets. As of October 31, 2009 and April 30, 2009, the aggregate value of the redeemable noncontrolling interests was $1.9 million and $1.7 million respectively. Below is a table reflecting the activity of the redeemable noncontrolling interests.

	(in thousands)
Balance at April 30, 2008	$ 1,802
Net income	29
Distributions	(30)
Mark-to-market adjustments	160
Balance at October 31, 2008	$ 1,961

	(in thousands)
Balance at April 30, 2009	$ 1,737
Net income	32
Distributions	(104)
Mark-to-market adjustments	278
Balance at October 31, 2009	$ 1,943

NOTE 12 • SUBSEQUENT EVENTS

Common and Preferred Share Distributions. On November 18, 2009, the Company's Board of Trustees declared a regular quarterly distribution of 17.15 cents per share and unit on the Company's common shares of beneficial interest and limited partnership units of IRET Properties, payable January 15, 2010, to common shareholders and unitholders of record on January 4, 2010. Also on November 18, 2009, the Company's Board of Trustees declared a distribution of 51.56 cents per share on the Company's preferred shares of beneficial interest, payable December 31, 2009 to preferred shareholders of record on December 15, 2009.

Acquisitions and Dispositions. In November 2009, the Company acquired an approximately 6.8 acre parcel of vacant land located in Fargo, North Dakota, for a purchase price of approximately $395,000. The Company has agreed to

construct a new facility to be leased to a single tenant, with a target lease commencement date in July 2010. The Company estimates that its cost to construct the facility will be approximately $4.2 million, including the cost of the land, plus imputed construction interest. In November 2009, the Company sold a small office property in Minot, North Dakota for $110,000.

Pending Acquisitions and Dispositions. The Company is currently negotiating the purchase of two limited liability companies that own and operate five senior housing facilities located in Wyoming, for a total purchase price of approximately $45.0 million. The five senior housing facilities have a total of approximately 322 units, with up to approximately 370 beds. The Company is in the final stages of negotiating the purchase agreement for this potential acquisition, which agreement contains customary conditions and contingencies to closing, but has not yet completed its standard due diligence, and accordingly no assurances can be given that this transaction will be consummated. The Company is negotiating with a prospective lender to finance this acquisition with a loan of approximately 80-85% of the purchase price, but has sufficient funds on hand to close with cash. In the event the Company completes this acquisition, the Company would plan to expand three of the five existing locations at an estimated total cost of approximately $8.5

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million. The Company expects construction of these expansion projects to commence in the third or fourth quarter of the Company's current fiscal year, and to be funded from cash on hand. The Company has also signed agreements for the purchase of two multi-family residential properties located in Rochester, Minnesota; one property consists of two 24-plexes (48 units in total), and the other consists of four 4-plexes (16 units in total). The Company would pay a total of $4.3 million for the two properties, of which approximately $2.6 million would consist of the assumption of existing debt, with the remaining $1.7 million paid in UPREIT units of the Company's limited partnership valued at $10.25 per unit. This proposed acquisition is subject to various closing conditions and contingencies, and no assurances can be given that the transaction will be completed.

The Company is marketing for sale its 504-unit Dakota Hill multi-family residential property in Irving, Texas, and has signed an agreement for the sale of this property. The potential buyers' due diligence period has not yet expired, however, and the sales agreement for the property contains financing and other contingencies to closing, and accordingly no assurances can be given that this transaction will be consummated on the terms currently contemplated, or at all. The Company is also pursuing refinancing options for the mortgage loan on the property that matures on February 1, 2010.

Line of Credit Renewals. In November 2009, the Company renewed its $5.0 million line of credit with Dacotah Bank in Minot, North Dakota. The Company has $4.9 million currently drawn on this line, which matures in November 2010. Of this $4.9 million, the Company includes $3.4 million in mortgages payable on the Company's balance sheet, as secured by six apartment properties, with the remaining $1.5 million included in revolving lines of credit. The Company also extended its $10.0 million undrawn line of credit with Bremer Bank from November 1, 2009 to December 31, 2009. The Company expects to renew this line of credit prior to its expiration.

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, 2009, which are included in the Company's Current Report on Form 8-K, filed with the SEC on September 18, 2009.

Forward Looking Statements. Certain matters included in this discussion are forward looking statements within the meaning of the federal securities laws. Although we believe that the expectations reflected in the following statements are based on reasonable assumptions, we can give no assurance that the expectations expressed will actually be achieved. Many factors may cause actual results to differ materially from our current expectations, including general economic conditions, local real estate conditions, the general level of interest rates and the availability of financing and various other economic risks inherent in the business of owning and operating investment real estate.

Overview. IRET is a self-advised equity REIT engaged in owning and operating income-producing real estate properties. Our investments include multi-family residential properties and commercial office, industrial, medical and retail properties located primarily in the upper Midwest states of Minnesota and North Dakota. Our properties are diversified by type and location. As of October 31, 2009, our real estate portfolio consisted of 77 multi-family residential properties containing 9,669 apartment units and having a total real estate investment amount net of accumulated depreciation of $423.4 million, and 169 commercial properties containing approximately 11.8 million square feet of leasable space. Our commercial properties consist of:

- 68 office properties containing approximately 5.0 million square feet of leasable space and having a total real estate investment amount net of accumulated depreciation of $499.5 million;

- 49 medical properties (including senior housing) containing approximately 2.3 million square feet of leasable space and having a total real estate investment amount net of accumulated depreciation of $342.6 million;

- 19 industrial properties containing approximately 3.0 million square feet of leasable space and having a total real estate investment amount net of accumulated depreciation of $99.0 million; and

- 33 retail properties containing approximately 1.5 million square feet of leasable space and having a total real estate investment amount net of accumulated depreciation of $98.4 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 office, industrial, retail and medical commercial properties that are leased to single or multiple tenants, usually for five years or longer, and are located throughout the upper Midwest. We operate mainly within the states of North Dakota and Minnesota, although we also have real estate investments in South Dakota, Montana, Nebraska, Colorado, Idaho, Iowa, Kansas, Michigan, Missouri, Texas and Wisconsin.

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

Our second quarter fiscal year 2010 results reflect the continuing challenges the real estate industry faced during the three months ended October 31, 2009. During this quarter, factors adversely affecting demand for IRET's commercial and multi-family properties continued to be pervasive across the United States and in IRET's markets, with commercial tenants continuing to focus on reducing costs through space reductions and lower rents. Additionally, continued job losses pressured occupancy and revenue in the Company's multi-family residential segment. We expect current credit market conditions and the continued high level of unemployment to maintain or increase credit stresses on Company tenants, and continue to expect this tenant stress to lead to increases in past due accounts and vacancies.

Decreases in FFO and Net Income for the three and six months ended October 31, 2009 to the comparable period in the prior year were due to increased vacancy in all segments and in particular our multifamily residential segment, and impairment charges taken on two commercial properties.

During the third quarter of fiscal year 2009, Smurfit-Stone Container Corporation, our tenant in two industrial properties, filed a voluntary petition under Chapter 11 of the Bankruptcy Code. Smurfit is among our 10 largest commercial tenants based on annualized base rent, with payments under their leases with us totaling approximately $163,000 per month, comprising approximately 1.5% of our total commercial segments' base rents. Smufit-Stone has assumed both leases with us and is current on all payments under the leases.

As of October 31, 2009, a total of approximately $570,000 at IRET's Fox River project (Grand Chute, WI) and $1.2 million at the Stevens Point project (Stevens Point, WI) has been written off or recorded as past due over the past 17 months. The Fox River project was acquired by IRET in fiscal year 2006 as a partially-completed eight-unit senior housing project with adjoining vacant land, and IRET subsequently funded the completion of the eight senior living villas and the construction of ten new senior living patio homes, which were completed in September 2007. The Stevens Point project was acquired by IRET in fiscal year 2006, and at acquisition consisted of an existing senior housing complex and an adjoining vacant parcel of land. IRET subsequently funded the construction of an expansion to the existing facility on the adjoining parcel, which was completed in June 2007. The tenants in these two properties, affiliates of Sunwest Management, Inc., have filed for bankruptcy under Chapter 11 of the Bankruptcy Code, and have been unable to finance their portion of the construction cost for the ten new Fox River patio homes, and have been unable to fund the shortfall between the Stevens Point project's cash flow and the lease payments due to IRET. IRET's investment in the Fox River and Stevens Point properties leased to Sunwest is approximately $3.8 million and $14.8 million, respectively, or approximately 0.2% and 0.9% of IRET's property owned as of October 31, 2009.

IRET is currently receiving all of the cash flow generated by the Stevens Point project (approximately $85,000 per month, or approximately 57.2% of the Scheduled Rent and other obligations due under the lease). IRET is currently receiving no payments from the Fox River project, and its exercise of its rights under the lease to remove Sunwest as

the tenant and manager at the project and to pursue collection of amounts owed under guarantees provided in conjunction with the lease agreement has been suspended following the tenant's bankruptcy filing. IRET is evaluating its options in respect of this project; at this time IRET considers that, subject to its analysis of market values in Appleton, Wisconsin, IRET would proceed to market the patio homes and senior living villas and the balance of the vacant parcel (approximately 12 acres) in an attempt to recover its investment and provide some return on investment.

We believe that the timing of an economic recovery is unclear and economic conditions may not improve quickly. Our near-term focus continues to be to strengthen our capital and liquidity position by evaluating the selective disposition of properties, controlling and reducing capital expenditures and overhead costs, and generating positive cash flows from operations. Our portfolio of properties is diversified by property type and location, which we believe helps mitigate risks such as changes in demographics or job growth which may occur within individual markets and industries, although it may not mitigate such risks with regard to more wide-spread economic declines. The continuation of the current economic environment and capital market disruptions have and could continue to have a negative impact on us, and adversely affect our future results of operations.

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 Current Report on Form 8-K for the fiscal year ended April 30, 2009, filed with the SEC on September 18, 2009, 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 October 31, 2009.

RECENT ACCOUNTING PRONOUNCEMENTS

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

RESULTS OF OPERATIONS FOR THE THREE AND SIX MONTHS ENDED OCTOBER 31, 2009 AND 2008
REVENUES

Revenues for the three months ended October 31, 2009 and 2008 were $59.6 million for both periods. Revenues for the six months ended October 31, 2009 were $120.4 million compared to $118.4 million in the six months ended October 31, 2008, an increase of $2.0 million or 1.7%. This increase in revenue resulted primarily from the additional investments in real estate made by IRET during fiscal year 2009 and fiscal year 2010, as well as other factors shown by the following analysis:

	(in thousands)	
	Increase in Total Revenue Three Months ended October 31, 2009	Increase in Total Revenue Six Months ended October 31, 2009
Rent in Fiscal 2010 from 8 properties acquired in Fiscal 2009 in excess of that received in Fiscal 2009 from the same 8 properties	$692	$ 1,611
Rent from 2 properties acquired in Fiscal 2010	106	106
(Decrease) increase in lease termination fees	(39)	535
Decrease in rental income on stabilized properties due to an increase in economic vacancy	(736)	(254)
Net increase in total revenue	$23	$ 1,998

NET OPERATING INCOME

The following tables report segment financial information. We measure the performance of our segments based on net operating income ("NOI"), which we define as total revenues less property operating expenses and real estate taxes. We believe that NOI is an important supplemental measure of operating performance for a REIT's operating real estate because it provides a measure of core operations that is unaffected by depreciation, amortization, financing and general and administrative expense. NOI does not represent cash generated by operating activities in accordance with GAAP and should not be considered an alternative to net income, net income available for common shareholders or cash flow from operating activities as a measure of financial performance.

The following tables show revenues, property operating expenses and NOI by reportable operating segment for the three and six months ended October 31, 2009 and 2008. 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). This comparison allows the Company to evaluate the performance of existing properties and their contribution to net income. Management believes that measuring performance on a stabilized property basis is useful to investors because it enables evaluation of how the Company's properties are performing year over year. Management uses this measure to assess whether or not it has been successful in increasing net operating income, renewing the leases of existing tenants, controlling operating costs and appropriately handling capital improvements.

	(in thousands)					
Three Months Ended October 31, 2009	Multi-Family Residential	Commercial-Office	Commercial-Medical	Commercial-Industrial	Commercial-Retail	Total
Real estate revenue	$19,256	$ 20,483	$ 13,231	$ 3,339	$ 3,287	$59,596
Real estate expenses						
Utilities	1,659	1,983	560	58	119	4,379
Maintenance	2,683	2,481	1,024	192	236	6,616
Real estate taxes	1,856	3,516	1,214	789	549	7,924
Insurance	483	260	111	47	54	955
Property management	2,458	846	1,052	116	139	4,611
Total expenses	$9,139	$ 9,086	$ 3,961	$ 1,202	$ 1,097	$24,485
Net operating income	$10,117	$ 11,397	$ 9,270	$ 2,137	$ 2,190	$35,111
Stabilized net operating income	$9,571	$ 11,373	$ 8,980	$ 1,970	$ 2,190	$34,084
Non-stabilized net operating income	546	24	290	167	0	1,027
Total net operating income	$10,117	$ 11,397	$ 9,270	$ 2,137	$ 2,190	$35,111

	(in thousands)					
Three Months Ended October 31, 2008	Multi-Family Residential	Commercial-Office	Commercial-Medical	Commercial-Industrial	Commercial-Retail	Total
Real estate revenue	$19,402	$ 20,723	$ 12,960	$ 2,975	$ 3,513	$59,573
Real estate expenses						
Utilities	1,714	2,108	665	24	96	4,607
Maintenance	2,655	2,564	1,004	114	248	6,585
Real estate taxes	1,929	3,390	1,103	529	536	7,487
Insurance	316	251	98	43	46	754
Property management	2,315	890	993	92	230	4,520
Total expenses	$8,929	$ 9,203	$ 3,863	$ 802	$ 1,156	$23,953
Net operating income	$10,473	$ 11,520	$ 9,097	$ 2,173	$ 2,357	$35,620
Stabilized net operating income	$10,214	$ 11,475	$ 8,969	$ 2,173	$ 2,357	$35,188
Non-stabilized net operating income	259	45	128	0	0	432
Total net operating income	$10,473	$				