

INVESTORS REAL ESTATE TRUST

Form 10-Q

December 10, 2010

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, 2010

Commission File Number 0-14851

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

North Dakota
(State or other jurisdiction of
incorporation or organization)

45-0311232
(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 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

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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

Registrant is a North Dakota Real Estate Investment Trust. As of December 6, 2010, it had 79,414,205 common shares of beneficial interest outstanding.

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PART I
ITEM 1. FINANCIAL STATEMENTS - SECOND QUARTER - FISCAL 2011
INVESTORS REAL ESTATE TRUST AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS (unaudited)

	(in thousands, except share data)	
	October 31,	April 30, 2010
	2010	
ASSETS		
Real estate investments		
Property owned	\$ 1,773,924	\$ 1,800,519
Less accumulated depreciation	(322,379)	(308,626)
	1,451,545	1,491,893
Development in progress	2,755	2,831
Unimproved land	7,876	6,007
Mortgage loans receivable, net of allowance of \$3 and \$3, respectively	157	158
Total real estate investments	1,462,333	1,500,889
Other assets		
Cash and cash equivalents	43,701	54,791
Marketable securities – available-for-sale	420	420
Receivable arising from straight-lining of rents, net of allowance of \$954 and \$912, respectively	18,125	17,320
Accounts receivable, net of allowance of \$336 and \$257, respectively	5,179	4,916
Real estate deposits	2,089	516
Prepaid and other assets	3,375	1,189
Intangible assets, net of accumulated amortization of \$43,502 and \$39,571, respectively	48,140	50,700
Tax, insurance, and other escrow	10,504	9,301
Property and equipment, net of accumulated depreciation of \$1,123 and \$924, respectively	1,370	1,392
Goodwill	1,260	1,388
Deferred charges and leasing costs, net of accumulated amortization of \$14,115 and \$13,131, respectively	18,606	18,108
TOTAL ASSETS	\$ 1,615,102	\$ 1,660,930
LIABILITIES AND EQUITY		
LIABILITIES		
Accounts payable and accrued expenses	\$ 26,616	\$ 38,514
Revolving lines of credit	29,100	6,550
Mortgages payable	1,004,532	1,057,619
Other	1,227	1,320
TOTAL LIABILITIES	1,061,475	1,104,003
COMMITMENTS AND CONTINGENCIES (NOTE 6)		
REDEEMABLE NONCONTROLLING INTERESTS – CONSOLIDATED REAL ESTATE ENTITIES	1,357	1,812
EQUITY		
Investors Real Estate Trust shareholders' equity		
Preferred Shares of Beneficial Interest (Cumulative redeemable preferred shares, no par value, 1,150,000 shares issued and outstanding at October 31, 2010 and	27,317	27,317

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April 30, 2010, aggregate liquidation preference of \$28,750,000)		
Common Shares of Beneficial Interest (Unlimited authorization, no par value, 79,092,504 shares issued and outstanding at October 31, 2010, and 75,805,159 shares issued and outstanding at April 30, 2010)	610,580	583,618
Accumulated distributions in excess of net income	(221,304)	(201,412)
Total Investors Real Estate Trust shareholders' equity	416,593	409,523
Noncontrolling interests – Operating Partnership (19,993,682 units at October 31, 2010 and 20,521,365 units at April 30, 2010)	126,113	134,970
Noncontrolling interests – consolidated real estate entities	9,564	10,622
Total equity	552,270	555,115
TOTAL LIABILITIES AND EQUITY	\$ 1,615,102	\$ 1,660,930

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, 2010 and 2009

	Three Months Ended October 31		Six Months Ended October 31	
	(in thousands, except per share data)			
	2010	2009	2010	2009
REVENUE				
Real estate rentals	\$49,406	\$47,216	\$98,787	\$94,866
Tenant reimbursement	11,131	11,004	22,467	22,795
TOTAL REVENUE	60,537	58,220	121,254	117,661
EXPENSES				
Depreciation/amortization related to real estate investments	14,103	14,169	28,334	27,977
Utilities	4,494	4,245	8,676	8,296
Maintenance	6,922	6,469	13,992	13,525
Real estate taxes	7,534	7,698	15,435	15,405
Insurance	794	918	1,272	1,852
Property management expenses	5,206	4,438	10,506	8,385
Administrative expenses	1,582	1,365	3,339	2,721
Advisory and trustee services	136	133	348	264
Other expenses	563	498	916	932
Amortization related to non-real estate investments	639	549	1,293	1,124
Impairment of real estate investments	0	708	0	708
TOTAL EXPENSES	41,973	41,190	84,111	81,189
Interest expense	(16,880)	(16,734)	(33,395)	(33,666)
Interest income	65	61	119	126
Other income	102	64	185	127
Income from continuing operations before income taxes	1,851	421	4,052	3,059
Income tax benefit	19	0	0	0
Income from continuing operations	1,870	421	4,052	3,059
Income (loss) from discontinued operations	5,251	(221)	5,401	(290)
NET INCOME	7,121	200	9,453	2,769
Net (income) loss attributable to noncontrolling interests – Operating Partnership	(1,322)	59	(1,692)	(420)
Net loss (income) attributable to noncontrolling interests – consolidated real estate entities	20	26	44	(47)
Net income attributable to Investors Real Estate Trust	5,819	285	7,805	2,302
Dividends to preferred shareholders	(593)	(593)	(1,186)	(1,186)
NET INCOME (LOSS) AVAILABLE TO COMMON SHAREHOLDERS	\$5,226	\$(308)	\$6,619	\$1,116
Earnings per common share from continuing operations – Investors Real Estate Trust – basic and diluted	.01	.00	.03	.02
Earnings per common share from discontinued operations – Investors Real Estate Trust – basic and diluted	.06	.00	.06	.00
NET INCOME PER COMMON SHARE – BASIC AND DILUTED	\$.07	\$.00	\$.09	\$.02
DIVIDENDS PER COMMON SHARE	.1715	.1710	.3430	.3415

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

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INVESTORS REAL ESTATE TRUST AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF EQUITY (unaudited)
for the six months ended October 31, 2010 and 2009

(in thousands)

	NUMBER OF PREFERRED SHARES	NUMBER OF PREFERRED SHARES	NUMBER OF COMMON SHARES	NUMBER OF COMMON SHARES	ACCUMULATED DISTRIBUTIONS IN EXCESS OF NET INCOME	NONCONTROLLING INTERESTS	TOTAL EQUITY
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 nonredeemable noncontrolling interests					2,302	435	2,737
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
Balance April 30, 2010	1,150	\$ 27,317	75,805	\$583,618	\$ (201,412)	\$ 145,592	\$555,115
Net income attributable to Investors Real Estate Trust and					7,805	1,631	9,436

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nonredeemable noncontrolling interests								
Distributions – common shares				(26,511)		(6,971)		(33,482)
Distributions – preferred shares				(1,186)				(1,186)
Distribution reinvestment plan	669		5,480					5,480
Shares issued	2,091		17,380					17,380
Redemption of units for common shares	528		3,578			(3,578)		0
Adjustments to redeemable noncontrolling interests			472					472
Other			52			(997)		(945)
Balance October 31, 2010	1,150	\$ 27,317	79,093	\$ 610,580	\$ (221,304)	\$ 135,677		\$ 552,270

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, 2010 and 2009

	Six Months Ended October 31 (in thousands)	
	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	\$9,453	\$2,769
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	31,166	30,335
Gain on sale of real estate, land and other investments	(5,404)	0
Impairment of real estate investments	0	860
Bad debt expense	179	818
Changes in other assets and liabilities:		
Increase in receivable arising from straight-lining of rents	(847)	(668)
Increase in accounts receivable	(125)	(1,281)
Increase in prepaid and other assets	(2,185)	(1,699)
Increase (decrease) in tax, insurance and other escrow	(1,203)	600
Increase in deferred charges and leasing costs	(2,845)	(1,959)
Decrease in accounts payable, accrued expenses, and other liabilities	(9,602)	(2,845)
Net cash provided by operating activities	18,587	26,930
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from real estate deposits	629	717
Payments for real estate deposits	(2,202)	(1,264)
Principal proceeds on mortgage loans receivable	1	1
Proceeds from sale of real estate - discontinued operations	36,373	0
Proceeds from sale of real estate and other investments	0	34
Insurance proceeds received	140	625
Payments for acquisitions and improvements of real estate investments	(16,788)	(21,673)
Net cash provided (used) by investing activities	18,153	(21,560)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from mortgages payable	24,325	77,335
Principal payments on mortgages payable	(81,699)	(86,245)
Principal payments on revolving lines of credit and other debt	(6,550)	(15,523)
Proceeds from revolving lines of credit and other debt	29,100	15,500
Proceeds from sale of common shares, net of issue costs	17,127	98,556
Repurchase of fractional shares and partnership units	(2)	(2)
Payments for acquisition of noncontrolling interests – consolidated real estate entities	(425)	0
Distributions paid to common shareholders, net of reinvestment of \$5,132 and \$4,800, respectively	(21,379)	(16,940)
Distributions paid to preferred shareholders	(1,186)	(1,186)
Distributions paid to noncontrolling interests – Unitholders of the Operating Partnership, net of reinvestment of \$348 and \$407, respectively	(6,623)	(6,726)
Distributions paid to noncontrolling interests – consolidated real estate entities	(518)	(547)
Distributions paid to redeemable noncontrolling interests – consolidated real estate entities	0	(104)
Net cash (used) provided by financing activities	(47,830)	64,118
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(11,090)	69,488

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CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	54,791	33,244
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$43,701	\$102,732

(continued)

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INVESTORS REAL ESTATE TRUST AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited, continued)
for the six months ended October 31, 2010 and 2009

	Six Months Ended October 31 (in thousands)	
	2010	2009
SUPPLEMENTARY SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES FOR THE PERIOD		
Distribution reinvestment plan	\$5,132	\$4,800
Operating partnership distribution reinvestment plan	348	407
Assets acquired through the issuance of operating partnership units	0	2,888
Operating partnership units converted to shares	3,578	1,114
Real estate investment acquired through assumption of indebtedness and accrued costs	4,288	0
Adjustments to accounts payable included within real estate investments	(2,043)	(19)
Adjustments to redeemable noncontrolling interests	(472)	278
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the period for:		
Interest on mortgages	32,737	33,612
Interest other	674	170
	\$33,411	\$33,782

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, 2010 and 2009

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, Michigan, Wisconsin and Wyoming. As of October 31, 2010, IRET owned 77 multi-family residential properties with 9,187 apartment units and 174 commercial properties, consisting of office, medical, industrial and retail properties, totaling 12.0 million net rentable square feet. IRET conducts a majority of its business activities through its consolidated operating partnership, IRET Properties, a North Dakota Limited Partnership (the “Operating Partnership”), as well as through a number of other consolidated subsidiary entities.

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

NOTE 2 • BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

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

The accompanying condensed consolidated financial statements include the accounts of IRET and its interest in the Operating Partnership. The Company’s interest in the Operating Partnership was 79.8% and 78.7%, respectively, as of October 31, 2010 and April 30, 2010. The limited partners in the Operating Partnership have a redemption option that they may exercise. Upon exercise of the redemption option by the limited partners, IRET has the choice of redeeming the limited partners’ interests (“Units”) for IRET common shares of beneficial interest, on a one-for-one basis, or making a cash payment to the unitholder. The redemption generally may be exercised by the limited partners at any time after the first anniversary of the date of the acquisition of the Units (provided, however, that in general not more than two redemptions by a limited partner may occur during each calendar year, and each limited partner may not exercise the redemption for less than 1,000 Units, or, if such limited partner holds less than 1,000 Units, for all of the Units held by such limited partner). The Operating Partnership and some limited partners have contractually agreed to a holding period of greater than one year and/or a greater number of redemptions during a calendar year.

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

UNAUDITED INTERIM FINANCIAL STATEMENTS

The interim condensed consolidated financial statements of IRET have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and the applicable rules and regulations of the Securities and Exchange Commission (“SEC”). Accordingly, certain disclosures accompanying annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America 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

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consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended April 30, 2010, as filed with the SEC on July 14, 2010, as amended by the Current Report on Form 8-K filed with the SEC on December 10, 2010.

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; we have omitted all references to the prior detailed numerical referencing system previously used by the FASB to identify FASB statements, staff positions, abstracts and accounting statements of position, and instead use the new ASC numbering convention, as applicable.

In January 2010, the FASB issued an update to ASC 820, Fair Value Measurements and Disclosures, adding new requirements for disclosures about transfers into and out of Levels 1 and 2 fair value measurements and additional disclosures about activity within Level 3 fair value measurements. To date, we have not had any transfers in and out of Level 1 fair value measurements, nor do we have any Level 2 or Level 3 fair value measurements. Therefore, the application of this update did not have any impact on the fair value disclosures included in our 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, 2010, the Company incurred no losses due to impairment. 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 and acceptance of a market offer to purchase. This property was subsequently sold and the related impairment charge for fiscal year 2010 is reported in discontinued operations. See Note 7 for additional information. The Company also recorded an impairment charge of approximately \$708,000 on a commercial retail property located in Kentwood, Michigan. This property's tenant vacated the premises but continued to pay rent under a lease agreement that expired on October 29, 2010. Broker representations and market data for this commercial retail property provided the basis for the impairment charge.

COMPENSATING BALANCES AND LINE OF CREDIT

The Company maintains compensating balances, not restricted as to withdrawal, with several financial institutions in connection with financing received from those institutions and/or to ensure future credit availability, as follows:

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Dacotah Bank, Minot, North Dakota, a deposit of \$100,000; United Community Bank, Minot, North Dakota, deposit of \$370,000; Commerce Bank, A Minnesota Banking Corporation, deposit of \$250,000; First International Bank, Watford City, North Dakota, deposit of \$6.0 million, and Peoples State Bank of Velva, North Dakota, deposit of \$150,000.

As of October 31, 2010, the Company had one secured line of credit with First International Bank and Trust, Watford City, North Dakota, as lead bank. This line of credit had, as of October 31, 2010, lending commitments of \$47.0 million, with the capacity to grow to \$60.0 million. Participants in the line of credit include several banks whose previous separate credit lines to the Company were terminated during the second quarter of fiscal year 2011 following their consolidation into the First International Bank-led facility. Participants in this secured credit facility as of October 31, 2010 included, in addition to First International Bank, The Bank of North Dakota; First Western Bank and Trust; Dacotah Bank; United Community Bank of North Dakota and American State Bank & Trust Company. As of October 31, 2010, the Company had advanced \$29.1 million under the line of credit. These funds were used to pay off \$19.0 million of debt maturing during the second quarter of fiscal year 2011.

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The line of credit has a minimum outstanding principal balance requirement of \$10.0 million. The facility includes customary loan covenants including restrictions regarding minimum debt-service ratios to be maintained in the aggregate and individually on properties in the collateral pool, and the Company is also required to maintain minimum depository account(s) totaling \$6.0 million with First International, of which \$1.5 million is to be held in a non-interest bearing account. As of October 31, 2010, the Company was in compliance with the facility covenants.

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, 2010 and 2009, respectively, the Company added approximately \$1.4 million and \$656,000 of new intangible assets and \$0 and \$20,000 of new intangible liabilities. The weighted average lives of the intangible assets and intangible liabilities acquired in the six months ended October 31, 2010 and 2009 are 6.5 years and 7.3 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, 2010 and April 30, 2010 were as follows:

	(in thousands)	
	October 31, 2010	April 30, 2010
Identified intangible assets (included in intangible assets):		
Gross carrying amount	\$91,642	\$ 90,271
Accumulated amortization	(43,502)	(39,571)
Net carrying amount	\$48,140	\$ 50,700
Identified intangible liabilities (included in other liabilities):		
Gross carrying amount	\$1,260	\$ 1,260
Accumulated amortization	(1,033)	(940)
Net carrying amount	\$227	\$ 320

The effect of amortization of acquired below-market leases and acquired above-market leases on rental income was approximately \$(10,000) and \$(14,000) for the three months ended October 31, 2010 and 2009, respectively, and \$(17,000) and \$(26,000) for the six months ended October 31, 2010 and 2009. 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)
2012	\$ 53
2013	36
2014	37
2015	20
2016	16

Amortization of all other identified intangible assets (a component of depreciation and amortization expense) was \$1.8 million and \$2.3 million for the three months ended October 31, 2010 and 2009, respectively, and \$3.8 million and \$4.6 million for the six months ended October 31, 2010 and 2009. The estimated annual amortization of all other identified intangible assets for each of the five succeeding fiscal years is as follows:

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Year Ended April 30,	(in thousands)
2012	\$ 4,940
2013	3,965
2014	3,559
2015	3,202
2016	3,014

The excess of the cost of an acquired business over the net of the amounts assigned to assets acquired (including identified intangible assets) and liabilities assumed is recorded as goodwill. The Company's goodwill has an indeterminate life and is not amortized, but is tested for impairment on an annual basis, or more frequently if events or changes in circumstances indicate that the asset might be impaired. Goodwill book values as of October 31, 2010 and April 30, 2010 were \$1.3 million and \$1.4 million, respectively. The annual review at April 30, 2010 indicated no impairment and there was no indication of impairment at October 31, 2010. During the six months ended October 31, 2010, the Company disposed of a multi-family residential property that had goodwill assigned, and as a result, approximately \$128,000 of goodwill was derecognized.

MARKETABLE SECURITIES

IRET's investments in marketable securities are classified as "available-for-sale." The securities classified as "available-for-sale" represent investments in debt securities which the Company intends to hold for an indefinite period of time. These securities are valued at current fair value with the resulting unrealized gains and losses excluded from earnings and reported as a separate component of equity until realized. 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, 2010, 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. Gains or losses on these securities are computed based on the amortized cost of the specific securities when sold.

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.

RECLASSIFICATIONS

Certain previously reported amounts have been reclassified to conform to the current financial statement presentation. The Company reports, in discontinued operations, the results of operations of a property that has either

been disposed of or is classified as held for sale and the related gains or losses, and as a result of discontinued operations, retroactive reclassifications that change prior period numbers have been made. See Note 7 for additional information. During the second quarter of fiscal year 2011 the Company sold three properties, a small retail property in Ladysmith, Wisconsin, a patio home property in Fargo, North Dakota, and its 504-unit Dakota Hill multi-family residential property in Irving, Texas. During fiscal year 2010, the Company sold its former headquarters property in Minot, North Dakota, and disposed of a small apartment property in Grafton, North Dakota. In fiscal year 2009, the Company sold a small residential property in Minot, North Dakota. The results of operations for these properties are included in discontinued operations in the condensed consolidated statements of operations.

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

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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, 2010 and 2009:

	Three Months Ended October 31 (in thousands, except per share data)		Six Months Ended October 31	
	2010	2009	2010	2009
NUMERATOR				
Income from continuing operations – Investors Real Estate Trust	\$1,627	\$456	\$3,495	\$2,525
Income (loss) from discontinued operations – Investors Real Estate Trust	4,192	(171)	4,310	(223)
Net income attributable to Investors Real Estate Trust	5,819	285	7,805	2,302
Dividends to preferred shareholders	(593)	(593)	(1,186)	(1,186)
Numerator for basic earnings per share – net income available to common shareholders	5,226	(308)	6,619	1,116
Noncontrolling interests – Operating Partnership	1,322	(59)	1,692	420
Numerator for diluted earnings per share	\$6,548	\$(367)	\$8,311	\$1,536
DENOMINATOR				
Denominator for basic earnings per share weighted average shares	78,647	66,160	77,512	64,276
Effect of convertible operating partnership units	20,090	21,002	20,263	20,908
Denominator for diluted earnings per share	98,737	87,162	97,775	85,184
Earnings per common share from continuing operations – Investors Real Estate Trust – basic and diluted	\$.01	\$.00	\$.03	\$.02
Earnings per common share from discontinued operations – Investors Real Estate Trust – basic and diluted	.06	.00	.06	.00
NET INCOME PER COMMON SHARE – BASIC & DILUTED	\$.07	\$.00	\$.09	\$.02

NOTE 4 • EQUITY

During the first quarter of fiscal year 2011, the Company sold 1.8 million common shares under its continuous offering program with Robert W. Baird & Co., Incorporated (“Baird”) as sales agent, for net proceeds of approximately \$15.0 million, before offering expenses but after underwriting discounts. The Company sold no shares under this program during the second quarter of fiscal year 2011. As of October 31, 2010, the Company had available securities in the aggregate amount of approximately \$18.2 million reserved for issuance under its continuous offering program with Baird. The Company sold no shares under this program during the first and second quarters of fiscal year 2010.

During the six months ended October 31, 2010 and 2009, respectively, approximately 528,000 Units and 168,000 Units were converted to common shares, with a total value of approximately \$3.6 million and \$1.1 million included in equity, and approximately 10,000 common shares and 7,000 common shares were issued under the Company’s 401(k) plan, with a total value of approximately \$86,000 and \$58,000 included in equity. Under the Company’s Distribution Reinvestment and Share Purchase Plan, approximately 765,000 common shares and 689,000 common shares were issued during the six months ended October 31, 2010 and 2009, respectively, with a total value of \$6.3 million and

\$5.8 million included in equity.

NOTE 5 • SEGMENT REPORTING

IRET reports its results in five reportable segments: multi-family residential properties, commercial office, commercial medical (including senior housing), commercial industrial and commercial 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.

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

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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, 2010 and 2009, 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, 2010	Multi-Family Residential	Commercial-Office	Commercial-Medical	Commercial-Industrial	Commercial-Retail	Total
Real estate revenue	\$ 18,125	\$ 19,603	\$ 16,244	\$ 3,205	\$ 3,360	\$60,537
Real estate expenses	8,918	8,632	5,361	969	1,070	24,950
Net operating income	\$9,207	\$ 10,971	\$ 10,883	\$ 2,236	\$ 2,290	35,587
Depreciation/amortization						(14,742)
Administrative, advisory and trustee services						(1,718)
Other expenses						(563)
Interest expense						(16,880)
Interest and other income						167
Income tax benefit						19
Income from continuing operations						1,870
Income from discontinued operations						5,251
Net income						\$7,121

(in thousands)						
Three Months Ended October 31, 2009	Multi-Family Residential	Commercial-Office	Commercial-Medical	Commercial-Industrial	Commercial-Retail	Total
Real estate revenue	\$ 17,926	\$ 20,483	\$ 13,226	\$ 3,339	\$ 3,246	\$58,220
Real estate expenses	8,427	9,083	3,961	1,202	1,095	23,768
Net operating income	\$9,499	\$ 11,400	\$ 9,265	\$ 2,137	\$ 2,151	34,452
Depreciation/amortization						(14,718)
Administrative, advisory and trustee services						(1,498)
Other expenses						(498)
Impairment of real estate investment						(708)
Interest expense						(16,734)
Interest and other income						125
Income from continuing operations						421
Loss from discontinued operations						(221)

Net income \$200

Six Months Ended October 31, 2010	(in thousands)					Total
	Multi-Family Residential	Commercial-Office	Commercial-Medical	Commercial-Industrial	Commercial-Retail	
Real estate revenue	\$35,779	\$ 39,496	\$ 32,554	\$ 6,648	\$ 6,777	\$121,254
Real estate expenses	17,576	17,575	10,669	1,952	2,109	49,881
Net operating income	\$ 18,203	\$ 21,921	\$ 21,885	\$ 4,696	\$ 4,668	71,373
Depreciation/amortization						(29,627)
Administrative, advisory and trustee services						(3,687)
Other expenses						(916)
Interest expense						(33,395)
Interest and other income						304
Income from continuing operations						4,052
Income from discontinued operations						5,401
Net income						\$9,453

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(in thousands)

Six Months Ended October 31, 2009	Multi-Family Residential	Commercial-Office	Commercial-Medical	Commercial-Industrial	Commercial-Retail	Total
Real estate revenue	\$35,675	\$ 41,649	\$ 26,939	\$ 6,734	\$ 6,664	\$117,661
Real estate expenses	16,946	18,526	7,654	2,153	2,184	47,463
Net operating income	\$ 18,729	\$ 23,123	\$ 19,285	\$ 4,581	\$ 4,480	70,198
Depreciation/amortization						(29,101)
Administrative, advisory and trustee services						(2,985)
Other expenses						(932)
Impairment of real estate investment						(708)
Interest expense						(33,666)
Interest and other income						253
Income from continuing operations						3,059
Loss from discontinued operations						(290)
Net income						\$2,769

Segment Assets and Accumulated Depreciation

Segment assets are summarized as follows as of October 31, 2010, and April 30, 2010, along with reconciliations to the condensed consolidated financial statements:

(in thousands)

As of October 31, 2010	Multi-Family Residential	Commercial-Office	Commercial-Medical	Commercial-Industrial	Commercial-Retail	Total
Segment Assets						
Property owned	\$522,030	\$ 585,848	\$ 430,484	\$ 118,485	\$ 117,077	\$1,773,924
Less accumulated depreciation/amortization	(127,912)	(96,186)	(59,318)	(16,896)	(22,067)	(322,379)
Total property owned	\$394,118	\$ 489,662	\$ 371,166	\$ 101,589	\$ 95,010	1,451,545
Cash and cash equivalents						43,701
Marketable securities						420
Receivables and other assets						108,648
Development in progress						2,755
Unimproved land						7,876
Mortgage loans receivable, net of allowance						157
Total Assets						\$1,615,102

(in thousands)

As of April 30, 2010	Multi-Family Residential	Commercial-Office	Commercial-Medical	Commercial-Industrial	Commercial-Retail	Total
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Segment assets						
Property owned	\$ 556,867	\$ 582,943	\$ 430,229	\$ 113,249	\$ 117,231	\$ 1,800,519
Less accumulated depreciation/amortization	(129,922)	(88,656)	(53,641)	(15,481)	(20,926)	(308,626)
Total property owned	\$426,945	\$ 494,287	\$ 376,588	\$ 97,768	\$ 96,305	1,491,893
Cash and cash equivalents						54,791
Marketable securities						420
Receivables and other assets						104,830
Development in progress						2,831
Unimproved land						6,007
Mortgage loans receivable, net of allowance						158
Total Assets						\$1,660,930

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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.

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, 2010, the total property cost of the 28 properties subject to purchase options was approximately \$206.5 million, and the total gross rental revenue from these properties was approximately \$10.1 million for the six months ended October 31, 2010.

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 131 of IRET's properties, consisting of approximately 7.4 million square feet of the Company's combined commercial segments' properties and 3,818 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 \$844.3 million at October 31, 2010. 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.

Crosstown Circle Office Building, Eden Prairie, MN. The Company's Crosstown Circle Office Building in Eden Prairie, Minnesota was acquired in October 2004 from Best Buy Company, which leased all but 7,500 square feet of the 185,000 square foot building under a master lease that expired September 30, 2010. Under the terms of the financing obtained by the Company for this building, the Company was obligated to fund a leasing reserve account in the event that a specified occupancy level was not met at the time the Best Buy master lease expired. The amount to be deposited in the leasing reserve account is calculated by multiplying a specified amount per square foot by the difference between the specified occupancy level and the building's actual occupied square feet under qualified leases. The Company deposited in such leasing reserve account \$3.4 million as of October 1, 2010. Funds in the leasing reserve account will be released as leases for vacant space in the building are executed.

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 on the part of this partner to exercise its option.

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, 2010, the Company is committed to fund approximately \$5.6 million in tenant improvements, within approximately the next 12 months.

Development Projects. The Company is currently constructing an approximately 24,000 square foot addition to its existing Edgewood Vista senior housing facility in Spearfish, South Dakota, for an estimated total project cost of \$2.6 million, of which approximately \$969,000 has been paid as of October 31, 2010. The Company expects this expansion project to be completed in the third quarter of fiscal year 2011. The Company is also currently converting an existing approximately 15,000 square foot

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commercial office building in Minot, North Dakota to a 24-unit multi-family residential property, for an estimated total cost of \$2.2 million and an expected completion date in the first quarter of the Company's fiscal year 2012; as of October 31, 2010, the Company had not yet commenced funding the construction costs for this project. During the second quarter of fiscal year 2011, the Company committed to fund the construction of six movie theaters at its existing Buffalo Mall property in Jamestown, North Dakota, for an estimated construction cost of \$2.0 million and expected completion in the first quarter of fiscal year 2012. As of October 31, 2010 the Company had funded approximately \$154,000 of these construction costs.

Construction interest capitalized for the three month periods ended October 31, 2010 and 2009, respectively, was approximately \$9,000 and \$0 for development projects completed and in progress. Construction interest capitalized for the six month periods ended October 31, 2010 and 2009, respectively, was approximately \$33,000 and \$0 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. During the second quarter of fiscal year 2011 the Company sold three properties, a small retail property in Ladysmith, Wisconsin, a patio home property in Fargo, North Dakota, and its 504-unit Dakota Hill multi-family residential property in Irving, Texas. During fiscal year 2010, the Company sold its former headquarters property in Minot, North Dakota, and disposed of a small apartment property in Grafton, North Dakota. In fiscal year 2009, the Company sold a small residential property in Minot, North Dakota. See Note 8 for additional information on the properties sold during the second quarter of fiscal year 2011. The Company also reports any gains or losses from the sale of a property in discontinued operations. There were no properties held for sale as of October 31, 2010 or 2009. The following information shows the effect on net income and the gains or losses from the sale of properties classified as discontinued operations for the three months and six months ended October 31, 2010 and 2009:

	Three Months Ended October 31		Six Months Ended October 31	
	2010	2009	2010	2009
	(in thousands)			
REVENUE				
Real estate rentals	\$1,212	\$1,376	\$2,516	\$2,756
TOTAL REVENUE	1,212	1,376	2,516	2,756
EXPENSES				
Depreciation/amortization related to real estate investments	217	263	468	523
Utilities	118	134	231	250
Maintenance	160	147	285	298
Real estate taxes	227	226	475	490
Insurance	31	37	58	76
Property management expenses	146	173	293	324
Other expenses	1	0	1	0
Impairment of real estate investments	0	152	0	152
TOTAL EXPENSES	900	1,132	1,811	2,113
Interest expense	(466)	(466)	(713)	(935)
Interest income	1	1	5	2
Income from discontinued operations before gain on sale	(153)	(221)	(3)	(290)
Gain on sale of discontinued operations	5,404	0	5,404	0

INCOME (LOSS) FROM DISCONTINUED OPERATIONS	\$5,251	\$(221)	\$5,401	\$(290)
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NOTE 8 • ACQUISITIONS AND DISPOSITIONS

PROPERTY ACQUISITIONS

The Company had no acquisitions or development projects placed in service during the second quarter of fiscal year 2011. 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 during the second quarter of fiscal year 2010.

During the first quarter of fiscal year 2011, IRET acquired, on July 15, 2010, two medical office buildings located in, respectively, Billings, Montana and Missoula, Montana, for a total purchase price of approximately \$5.2 million, consisting of cash of approximately \$957,000 and the assumption of existing debt with an interest rate of 7.06% and a maturity date of December 31, 2016 in the amount of approximately \$4.3 million. The two medical office buildings were each constructed in 2001, and contain approximately 14,705 square feet and 14,640 square feet of leasable space, respectively. During the first quarter of fiscal year 2011, the Company completed construction of a single-tenant office/warehouse facility in Fargo, North Dakota. The cost to construct the facility was approximately \$3.9 million, including the cost of the land plus imputed construction interest. During the first quarter of fiscal year 2010, IRET had no acquisitions or development projects placed in service.

The Company expensed approximately \$57,000 and \$35,000 of transaction costs related to acquisitions in the six months ended October 31, 2010 and 2009, respectively. The Company's acquisitions and development projects placed in service during the six months ended October 31, 2010 and 2009 are detailed below:

Six Months Ended October 31, 2010

Acquisitions and Development Projects Placed in Service	(in thousands)			Acquisition Cost
	Land	Building	Intangible Assets	
Commercial Medical				
14,705 sq. ft Billings 2300 Grant Road - Billings, MT	\$649	\$1,216	\$ 657	\$ 2,522
14,640 sq. ft. Missoula 3050 Great Northern - Missoula, MT	640	1,331	752	2,723
	1,289	2,547	1,409	5,245
Commercial Industrial				
42,244 sq ft. Fargo 1320 45th St N - Fargo, ND1	0	1,634	0	1,634
Total Property Acquisitions	\$1,289	\$4,181	\$ 1,409	\$ 6,879

(1) Development property placed in service June 22, 2010. Additional costs incurred in fiscal year 2010 totaled \$2.3 million, for a total project cost at October 31, 2010 of \$3.9 million.

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Six Months Ended October 31, 2009

Acquisitions	Land	Building	(in thousands)	
			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

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PROPERTY DISPOSITIONS

During the second quarter of fiscal year 2011, IRET sold a small retail property in Ladysmith, Wisconsin, on September 2, 2010; a patio home property in Fargo, North Dakota on September 30, 2010; and the Company's 504-unit Dakota Hill at Valley Ranch Apartments in Irving, Texas on October 26, 2010, for a total sales price of \$36.8 million. There were no dispositions in the first quarter of fiscal year 2011 or the first and second quarters of fiscal year 2010.

The Company's dispositions during the six months ended October 31, 2010 are detailed below:

Six Months Ended October 31, 2010

Dispositions	Sales Price	(in thousands) Book Value and Sales Cost	Gain/(Loss)
Multi-Family Residential			
504 - unit Dakota Hill at Valley Ranch - Irving, TX	\$36,100	\$ 30,674	\$5,426
Commercial Medical			
1,410 sq ft. Edgewood Vista - Patio Home 4330 - Fargo, ND	205	220	(15)
Commercial Retail			
41,000 sq ft. Ladysmith Pamida - Ladysmith, WI	450	457	(7)
Total Property Dispositions	\$36,755	\$ 31,351	\$5,404

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 2.82% to 8.25%, and the mortgages have varying maturity dates from the current fiscal year through June 9, 2035.

Of the mortgages payable, the balances of fixed rate mortgages totaled \$1.0 billion at October 31, 2010 and April 30, 2010. The balances of variable rate mortgages totaled \$1.7 million and \$29.0 million as of October 31, 2010, and April 30, 2010, 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, 2010, the weighted average rate of interest on the Company's mortgage debt was 6.14%, compared to 6.17% on April 30, 2010. The aggregate amount of required future principal payments on mortgages payable as of October 31, 2010, is as follows:

Six Months Ended October 31, 2010	(in thousands)
2011 (remainder)	\$ 69,322
2012	101,394

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2013	48,603
2014	60,040
2015	92,684
Thereafter	632,489
Total payments	\$ 1,004,532

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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, 2010, marketable securities available-for-sale consisted of bank certificates of deposit with maturities of less than two years.

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, 2010 and April 30, 2010, are as follows:

	(in thousands)			
	October 31, 2010		April 30, 2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
FINANCIAL ASSETS				
Mortgage loans receivable	\$157	\$157	\$158	\$158
Cash and cash equivalents	43,701	43,701	54,791	54,791
Marketable securities - available-for-sale	420	420	420	420
FINANCIAL LIABILITIES				
Other debt	1,000	1,039	1,000	1,142
Mortgages payable	1,004,532	1,000,930	1,057,619	1,015,879

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, 2010 and April 30, 2010, the estimated redemption value of the redeemable noncontrolling interests was \$1.4 million and \$1.8 million respectively. Below is a table reflecting the activity of the redeemable noncontrolling interests.

	(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

	(in thousands)
Balance at April 30, 2010	\$ 1,812
Net income	17
Distributions	0
Mark-to-market adjustments	(472)
Balance at October 31, 2010	\$ 1,357

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NOTE 12 • SUBSEQUENT EVENTS

Common and Preferred Share Distributions. On December 8, 2010, 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 14, 2011 to common shareholders and unitholders of record on January 3, 2011. IRET's Board of Trustees continues to evaluate the Company's distribution payout level on a quarter-by-quarter basis in view of the sustained economic downturn; in the event of deterioration in property operating results, or absent the Company's ability to continue cash-out refinancings of existing properties and/or new borrowings, the Company may need to consider additional cash preservation alternatives, including reducing the level of distributions to common shareholders and unitholders. Also on December 8, 2010, 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, 2010 to preferred shareholders of record on December 20, 2010.

Pending and Completed Acquisitions and Dispositions. The Company has signed agreements to acquire a two-story office property in Omaha, Nebraska, for a purchase price of \$8.3 million; a 44-unit multi-family residential property in Sioux Falls, South Dakota for a purchase price of \$2.3 million; and a 24-unit multi-family residential property located in Bismarck, North Dakota for a purchase price of \$1.9 million. These pending acquisitions are subject to various closing conditions and contingencies, and no assurance can be given that these transactions will be completed. Subsequent to the end of the second quarter of fiscal year 2011, the Company signed a purchase agreement to acquire an approximately 48,000 square foot office/retail property located in Minot, North Dakota, near the Company's IRET Corporate Plaza property, for a purchase price of \$8.3 million. The Company expects to close on this acquisition in mid-December 2010, and move its corporate headquarters to this property in the last quarter of the current fiscal year or the first quarter of the Company's fiscal year 2012, to provide additional space in IRET Corporate Plaza to Hess Corporation, under the Company's previously-announced lease to Hess of office space at IRET Corporate Plaza. Of the approximately 48,000 square feet in this office/retail property, IRET currently expects to occupy approximately 23,000 square feet, with two of the three commercial tenants currently occupying the building remaining on long-term leases. Subsequent to the end of the second quarter of the current fiscal year, the Company closed on its acquisition of the Edgewood Vista senior living facility in Minot, North Dakota, for a purchase price of \$15.2 million, of which \$5.6 million consisted of the assumption of existing mortgage debt and \$4.3 million consisted of new mortgage debt on the property, with the remaining approximately \$5.3 million paid in cash.

The Company has no currently pending dispositions. Subsequent to the end of the second quarter of fiscal year 2011, the Company completed its sale of a small industrial property in Waconia, Minnesota, for a sale price of \$2.3 million, of which sale proceeds \$1.1 million was paid to the lender to release the property from the existing mortgage (the property had been part of a three-property portfolio loan). Subsequent to the end of the second quarter of the current fiscal year, the Company also completed its sale of three multi-family residential properties in Colorado, the Pinecone and Miramont Apartments in Fort Collins, Colorado and the Neighborhood Apartments in Colorado Springs, Colorado, for a total sales price of approximately \$44.3 million. Of this \$44.3 million, approximately \$30.6 million consisted of the assumption by the buyer of the current mortgage loans on the properties, including loan prepayment penalties, with total gross proceeds to the Company of approximately \$13.7 million from the sale.

Development Project. During the second quarter of fiscal year 2011, the Company announced that Trinity Health, a community-based, non-profit healthcare organization, has agreed to occupy a new 22,000 square foot, one-story medical clinic to be built by IRET on land located in the northwest area of the IRET Corporate Plaza parcel. Subsequent to the end of the second quarter of fiscal year 2011, the Company signed a construction contract to build this facility, and construction of this new facility for Trinity Health began in November 2010, with completion and occupancy by Trinity expected in the early summer of calendar year 2011. The total estimated cost to construct the Trinity medical clinic is \$6.2 million.

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, 2010, which, as updated for discontinued operations, are included in the Company's Current Report on Form 8-K filed with the SEC on December 10, 2010.

Forward Looking Statements. Certain matters included in this discussion are forward looking statements within the meaning of the federal securities laws. Although we believe that the expectations reflected in the following statements are based on reasonable assumptions, we can give no assurance that the expectations expressed will actually be achieved. Many factors may

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

Overview. IRET is a self-advised equity REIT engaged in owning and operating income-producing real estate properties. Our investments include multi-family residential properties and commercial office, commercial medical, commercial industrial and commercial retail properties located primarily in the upper Midwest states of Minnesota and North Dakota. Our properties are diversified by type and location. As of October 31, 2010, our real estate portfolio consisted of 77 multi-family residential properties containing 9,187 apartment units and having a total real estate investment amount net of accumulated depreciation of \$394.1 million, and 174 commercial properties containing approximately 12.0 million square feet of leasable space. Our commercial properties consist of:

67 commercial 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 \$489.6 million;

55 commercial medical properties (including senior housing) containing approximately 2.6 million square feet of leasable space and having a total real estate investment amount net of accumulated depreciation of \$371.2 million;

- 20 commercial 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 \$101.6 million; and

32 commercial retail properties containing approximately 1.4 million square feet of leasable space and having a total real estate investment amount net of accumulated depreciation of \$95.0 million.

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

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

IRET has substantially completed its announced goal of transferring the management of the majority of our commercial and multi-family residential properties from third-party property management companies to our own employees. As of October 31, 2010, the Company has under internal management a total of 153 properties in our commercial office, commercial medical, commercial industrial and commercial retail segments, totaling approximately 9.3 million square feet. Approximately 82.1% of the properties in our commercial office segment, 89.1% of the properties in our commercial medical segment, 90.0% of the properties in our commercial industrial segment, and 96.9% of the properties in our commercial retail segment, were internally managed by Company employees as of October 31, 2010. We will continue to evaluate existing and acquired commercial properties to

determine additional suitable candidates for internal management, and to establish appropriate timelines to accomplish the transfers.

The transition to internal management in the Company's multi-family residential segment is also substantially complete. As of October 31, 2010, approximately 88.3% of the properties in the Company's multi-family residential segment were internally managed by Company employees, or approximately 7,744 units in 68 properties. The Company has added a significant number of new employees, many of whom were hired to work in multi-family residential property management, and as of October 31, 2010, the Company had 375 employees, of which 292 were full-time and 83 part-time employees; of these 375 employees, 55 are corporate staff in our Minot, North Dakota and Eden Prairie, Minnesota offices, and 320 are property management employees based at our properties or in local property management offices. These additions to staff, and associated investments in equipment, accounting and other support systems, represented a significant expense to the Company, which was reflected in an

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increase in property management expense attributable to the Company's internal property management initiative of approximately \$362,000 for the three months ended July 31, 2010.

During the first quarter of fiscal year 2011, as discussed below in the Property Acquisitions and Dispositions section of this Management's Discussion and Analysis of Financial Condition and Results of Operations, the Company acquired, on July 15, 2010, two medical office buildings located in, respectively, Billings, Montana and Missoula, Montana, for a total purchase price of approximately \$5.2 million, consisting of cash of approximately \$957,000 and the assumption of existing debt, with an interest rate of 7.06% and a maturity date of December 31, 2016, in the amount of approximately \$4.3 million. The two medical office buildings contain approximately 14,705 square feet and 14,640 square feet, respectively, of leasable space. During the first quarter of fiscal year 2011, the Company completed construction of a single-tenant office/warehouse facility in Fargo, North Dakota. The cost to construct the facility was approximately \$3.9 million, including the cost of the land plus imputed construction interest. The Company had no dispositions during the first quarter of fiscal year 2011.

The Company had no acquisitions or development projects placed in service during the second quarter of fiscal year 2011. During the second quarter of fiscal year 2011, IRET sold a small retail property in Ladysmith, Wisconsin, on September 2, 2010; a patio home property in Fargo, North Dakota on September 30, 2010; and the Company's 504-unit Dakota Hill at Valley Ranch Apartments in Irving, Texas on October 26, 2010, for a total sales price of \$36.8 million.

During the first quarter of fiscal year 2010, IRET had no acquisitions or development projects placed in service. 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 during the second quarter of fiscal year 2010. During fiscal year 2010, the Company sold its former headquarters property in Minot, North Dakota, and disposed of a small apartment property in Grafton, North Dakota.

Physical occupancy decreased in all of our reportable segments except for commercial medical during the three months ended October 31, 2010, on a stabilized and all-property basis, and our overall level of tenant concessions increased, compared to the year-earlier period.

We believe our decreased occupancy levels reflect the economic conditions in our markets, as recovery from the national economic recession has been slow. The recession, and illiquidity and uncertainty in the financial and capital markets during calendar years 2008, 2009 and continuing into 2010, negatively affected substantially all businesses, including ours. Although signs of an economic recovery have emerged during the first two quarters of our current fiscal year, we continue to expect recovery from the recession to be slow during the balance of the current fiscal year. It is not possible for us to predict or quantify the timing and impact of such a recovery, or lack thereof, during the remainder of fiscal year 2011.

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, 2010, filed with the SEC on December 10, 2010, 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, 2010.

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.

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RESULTS OF OPERATIONS FOR THE THREE AND SIX MONTHS ENDED OCTOBER 31, 2010 AND 2009

REVENUES

Revenues for the three months ended October 31, 2010 were \$60.5 million compared to \$58.2 million in the three months ended October 31, 2009, an increase of \$2.3 million or 4.0%. Revenues for the six months ended October 31, 2010 were \$121.3 million compared to \$117.7 million in the six months ended October 31, 2009, an increase of \$3.6 million or 3.1%. The increase in revenue for the three and six months ended October 31, 2010 resulted primarily from properties acquired in Fiscal 2010.

	(in thousands)	
	Increase in Total Revenue Three Months ended October 31, 2010	Increase in Total Revenue Six Months ended October 31, 2010
Rent in Fiscal 2011 primarily from 10 properties acquired in Fiscal 2010 in excess of that received in Fiscal 2010 from the same 10 properties	\$2,861	\$ 5,863
Rent in Fiscal 2011 primarily from 4 properties acquired in Fiscal 2011	275	337
Decrease in rental income on stabilized properties due to an increase in vacancy	(454)	(1,697)
Increase in tenant concessions	(365)	(910)
Net increase in total revenue	\$2,317	\$ 3,593

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

The following tables show real estate revenues, real estate expenses and NOI by reportable operating segment for the three and six months ended October 31, 2010 and 2009. 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 NOI by reportable operating segment on a stabilized property and non-stabilized property basis. Stabilized properties are properties owned and in operation for the entirety of the periods being compared (including properties that were redeveloped or expanded during the periods being compared, with properties purchased or sold during the periods being compared excluded from the stabilized property category), and, in the case of development or re-development properties, which have achieved a target level of occupancy. This comparison allows the Company to evaluate the performance of existing properties and their contribution to net income. Management believes that measuring performance on a stabilized property basis is useful to investors

because it enables evaluation of how the Company's properties are performing year over year. Management uses this measure to assess whether or not it has been successful in increasing net operating income, renewing the leases of existing tenants, controlling operating costs and appropriately handling capital improvements.

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(in thousands)						
Three Months Ended October 31, 2010	Multi-Family Residential	Commercial-Office	Commercial-Medical	Commercial-Industrial	Commercial-Retail	All Segments
Real estate revenue	\$ 18,125	\$ 19,603	\$ 16,244	\$ 3,205	\$ 3,360	\$ 60,537
Real estate expenses						
Utilities	1,570	1,993	778	58	95	4,494
Maintenance	2,844	2,600	1,086	94	298	6,922
Real estate taxes	1,651	3,319	1,402	668	494	7,534
Insurance	366	181	174	40	33	794
Property management	2,487	539	1,921	109	150	5,206
Total expenses	\$ 8,918	\$ 8,632	\$ 5,361	\$ 969	\$ 1,070	\$ 24,950
Net operating income	\$ 9,207	\$ 10,971	\$ 10,883	\$ 2,236	\$ 2,290	\$ 35,587
Stabilized net operating income	\$ 9,155	\$ 10,952	\$ 10,055	\$ 2,067	\$ 2,290	\$ 34,519
Non-stabilized net operating income	52	19	828	169	0	1,068
Total net operating income	\$ 9,207	\$ 10,971	\$ 10,883	\$ 2,236	\$ 2,290	\$ 35,587

(in thousands)						
Three Months Ended October 31, 2009	Multi-Family Residential	Commercial-Office	Commercial-Medical	Commercial-Industrial	Commercial-Retail	All Segments
Real estate revenue	\$ 17,926	\$ 20,483	\$ 13,226	\$ 3,339	\$ 3,246	\$ 58,220
Real estate expenses						
Utilities	1,527	1,981	560	58	119	4,245
Maintenance	2,536	2,481	1,024	192	236	6,469
Real estate taxes	1,630	3,516	1,214	789	549	7,698
Insurance	446	260	111	47	54	918
Property management	2,288	845	1,052	116	137	4,438
Total expenses	\$ 8,427	\$ 9,083	\$ 3,961	\$ 1,202	\$ 1,095	\$ 23,768
Net operating income	\$ 9,499	\$ 11,400	\$ 9,265	\$ 2,137	\$ 2,151	\$ 34,452
Stabilized net operating income	\$ 9,499	\$ 11,361	\$ 9,290	\$ 2,073	\$ 2,151	\$ 34,374
Non-stabilized net operating income	0	39	(25)	64	0	78
Total net operating income	\$ 9,499	\$ 11,400	\$ 9,265	\$ 2,137	\$ 2,151	\$ 34,452

(in thousands)						
Six Months Ended October 31, 2010	Multi-Family Residential	Commercial-Office	Commercial-Medical	Commercial-Industrial	Commercial-Retail	All Segments

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Real estate revenue	\$35,779	\$ 39,496	\$ 32,554	\$ 6,648	\$ 6,777	\$ 121,254
Real estate expenses						
Utilities	3,002	3,793	1,592	94	195	8,676
Maintenance	5,619	5,383	2,114	291	585	13,992
Real estate taxes	3,349	6,882	2,904	1,297	1,003	15,435
Insurance	642	282	222	79	47	1,272
Property management	4,964	1,235	3,837	191	279	10,506
Total expenses	\$17,576	\$ 17,575	\$ 10,669	\$ 1,952	\$ 2,109	\$ 49,881
Net operating income	\$18,203	\$ 21,921	\$ 21,885	\$ 4,696	\$ 4,668	\$ 71,373
Stabilized net operating income	\$18,096	\$ 21,899	\$ 20,138	\$ 4,426	\$ 4,668	\$ 69,227
Non-stabilized net operating income	107	22	1,747	270	0	2,146
Total net operating income	\$18,203	\$ 21,921	\$ 21,885	\$ 4,696	\$ 4,668	\$ 71,373

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Six Months Ended October 31, 2009	(in thousands)					All Segments
	Multi-Family Residential	Commercial-Office	Commercial-Medical	Commercial-Industrial	Commercial-Retail	
Real estate revenue	\$35,675	\$ 41,649	\$ 26,939	\$ 6,734	\$ 6,664	\$ 117,661
Real estate expenses						
Utilities	2,912	3,810	1,247	120	207	8,296
Maintenance	5,189	5,371	2,064	384	517	13,525
Real estate taxes	3,463	7,086	2,427	1,344	1,085	15,405
Insurance	901	523	224	95	109	1,852
Property management	4,481	1,736	1,692	210	266	8,385
Total expenses	\$16,946	\$ 18,526	\$ 7,654	\$ 2,153	\$ 2,184	\$ 47,463
Net operating income	\$18,729	\$ 23,123	\$ 19,285	\$ 4,581	\$ 4,480	\$ 70,198
Stabilized net operating income	\$18,729	\$ 23,132	\$ 19,342	\$ 4,517	\$ 4,480	\$ 70,200
Non-stabilized net operating income	0	(9)	(57)	64	0	(2)
Total net operating income	\$18,729	\$ 23,123	\$ 19,285	\$ 4,581	\$ 4,480	\$ 70,198

FACTORS IMPACTING NET OPERATING INCOME

Real estate revenue increased in three of our five reportable segments in the three and six month periods ended October 31, 2010 compared to the three and six month period ended October 31, 2009, to \$60.5 million and \$121.3 million, respectively, compared to \$58.2 million and \$117.7 million, primarily due to acquisitions in the multi-family residential and commercial medical segments. Our overall level of tenant concessions increased in the three and six month periods ended October 31, 2010 compared to the year-earlier periods.

- **Physical Occupancy.** During the six months ended October 31, 2010, physical occupancy levels on a stabilized property and all property basis decreased from the year earlier periods in four of our reportable segments, increasing in our commercial medical segment. We attribute the decrease primarily to difficult leasing conditions resulting from the current economic downturn, as discussed above in the Overview section of this Management's Discussion and Analysis of Financial Condition and Results of Operations. Physical occupancy rates on a stabilized property and all property basis for six months ended October 31, 2010, compared to the six months ended October 31, 2009, are shown below:

	Stabilized Properties				All Properties			
	Six Months Ended October 31, 2010		2009		Six Months Ended October 31, 2010		2009	
Multi-Family Residential	91.0	%	91.2	%	90.9	%	91.2	%
Commercial Office	80.8	%	85.7	%	80.5	%	85.1	%
Commercial Medical	95.3	%	94.3	%	95.8	%	94.3	%
Commercial Industrial	80.0	%	89.4	%	80.5	%	89.5	%
Commercial Retail	84.1	%	87.6	%	84.1	%	87.6	%

Increased Concessions. Our overall level of tenant concessions increased in the three and six month periods ended October 31, 2010 compared to the year-earlier periods. To maintain or increase physical occupancy levels at our properties, we may offer tenant incentives, generally in the form of lower or abated rents, which results in decreased revenues and income from operations at our properties. Rent concessions offered during the three and six months ended October 31, 2010 will lower, over the lives of the respective leases, our operating revenues by approximately \$1.1 million and \$2.3 million, as compared to an approximately \$763,000 and \$1.4 million reduction, over the lives of the respective leases, in operating revenues attributable to rent concessions offered in the three and six months ended October 31, 2009, as shown in the table below:

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(in thousands)

	Three Months Ended October 31,			Six Months Ended October 31,		
	2010	2009	Change	2010	2009	Change
Multi-Family Residential	\$533	\$468	\$65	\$1,040	\$973	\$67
Commercial Office	367	182	185	811	279	532
Commercial Medical	139	103	36	177	152	25
Commercial Industrial	73	7	66	251	21	230
Commercial Retail	16	3	13	69	13	56
Total	\$1,128	\$763	\$365	\$2,348	\$1,438	\$910

- **Increased Maintenance Expense.** Maintenance expenses totaled \$6.9 million and \$14.0 million for the three and six months ended October 31, 2010 compared to \$6.5 million and \$13.5 million for the three and six months ended October 31, 2009. Maintenance expenses at properties newly acquired in fiscal year 2011 and 2010 added \$87,000 and \$158,000 to the maintenance expenses category for the three and six months ended October 31, 2010. Maintenance expenses at existing (“stabilized”) properties increased by \$366,000 and \$309,000, respectively, resulting in an increase in maintenance expenses of \$453,000, or 7.0% for the three months ended October 31, 2010, and \$467,000, or 3.5% for the six months ended October 31, 2010 compared to the corresponding periods in fiscal year 2010. The increase in maintenance costs at our stabilized properties is due primarily to an increase in general building maintenance costs in our multi-family residential segment.

Maintenance expenses by reportable segment for the three and six months ended October 31, 2010 and 2009 are as follows:

(in thousands)

Three Months Ended October 31,	Multi-Family Residential	Commercial Office	Commercial Medical	Commercial Industrial	Commercial Retail	Total
2010	\$2,844	\$2,600	\$1,086	\$94	\$298	\$6,922
2009	\$2,536	\$2,481	\$1,024	\$192	\$236	\$6,469
Change	\$308	\$119	\$62	\$(98)	\$62	\$453
% change	12.1	% 4.8	% 6.1	% (51.0)	% 26.3	% 7.0
Stabilized	\$278	\$133	\$(8)	\$(99)	\$62	\$366
Non-stabilized	\$30	\$(14)	\$70	\$1	\$0	\$87
Change	\$308	\$119	\$62	\$(98)	\$62	\$453

(in thousands)

Six Months Ended October 31,	Multi-Family Residential	Commercial Office	Commercial Medical	Commercial Industrial	Commercial Retail	Total
2010	\$5,619	\$5,383	\$2,114	\$291	\$585	\$13,992
2009	\$5,189	\$5,371	\$2,064	\$384	\$517	\$13,525
Change	\$430	\$12	\$50	\$(93)	\$68	\$467
% change	8.3	% 0.2	% 2.4	% (24.2)	% 13.2	% 3.5
Stabilized	\$387	\$27	\$(79)	\$(94)	\$68	\$309
Non-stabilized	\$43	\$(15)	\$129	\$1	\$0	\$158
Change	\$430	\$12	\$50	\$(93)	\$68	\$467

- Increased Utility Expense. Utility expense totaled \$4.5 million and \$8.7 million for the three and six months ended October 31, 2010, compared to \$4.2 million and \$8.3 million for the three and six months ended October 31, 2009, an increase of 5.9% and 4.6%, respectively, over the year-earlier periods. Utility expenses at properties newly acquired in fiscal years 2011 and 2010 added \$158,000 and \$281,000 to the utility expense category for the three and six months ended October 31, 2010. Utility expenses at existing properties increased by \$91,000 and \$99,000, respectively, resulting in an increase of \$249,000 and \$380,000 or 5.9% and 4.6% for the three and six months ended October 31, 2010. The increase

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in utility costs at our stabilized properties is due to increased electrical costs in our multi-family residential and commercial medical segments.

Utility expenses by reportable segment for the three and six months ended October 31, 2010 and 2009 are as follows:

Three Months Ended October 31,	(in thousands)					Total
	Multi-Family Residential	Commercial Office	Commercial Medical	Commercial Industrial	Commercial Retail	
2010	\$1,570	\$ 1,993	\$ 778	\$ 58	\$ 95	\$4,494
2009	\$1,527	\$ 1,981	\$ 560	\$ 58	\$ 119	\$4,245
Change						