

INVESTORS REAL ESTATE TRUST

Form 10-K

June 28, 2018

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended April 30, 2018

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 001-35624

INVESTORS REAL ESTATE TRUST

(Exact name of Registrant as specified in its charter)

North Dakota

45-0311232

(State or other jurisdiction of incorporation or organization) (IRS Employer Identification No.)

1400 31st Avenue SW, Suite 60

Post Office Box 1988

Minot, ND 58702-1988

(Address of principal executive offices) (Zip code)

701-837-4738

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Common Shares of Beneficial Interest (no par value) - New York Stock Exchange

6.625% Series C Cumulative Redeemable Preferred Shares of Beneficial Interest (no par value) -

New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act.

Yes  No

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 such filing requirements for the past 90 days.

Yes  No

Indicate by checkmark whether the Registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§229.405 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

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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Yes  No

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

Large accelerated filer  Accelerated filer  Emerging growth company  
 Non-accelerated filer  Smaller reporting company

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

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

Yes  No

The aggregate market value of the Registrant's outstanding common shares of beneficial interest held by non-affiliates of the Registrant as of October 31, 2017 was 695,861,225 based on the last reported sale price on the New York Stock Exchange on October 31, 2017. For purposes of this calculation, the Registrant has assumed that its trustees and executive officers are affiliates.

The number of common shares of beneficial interest outstanding as of June 20, 2018, was 119,406,963.

References in this Annual Report on Form 10-K to the "Company," "IRET," "we," "us," or "our" include consolidated subsidiaries, unless the context indicates otherwise.

Documents Incorporated by Reference: Portions of IRET's definitive Proxy Statement for its 2018 Annual Meeting of Shareholders to be held on September 18, 2018 are incorporated by reference into Part III (Items 10, 11, 12, 13 and 14) hereof.

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Special Note Regarding Forward-Looking Statements

Certain statements included in this Annual Report on Form 10-K and the documents incorporated into this document by reference are “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Such forward-looking statements include statements about our plans and objectives, including our future financial condition, anticipated capital expenditures, anticipated distributions, and our belief that we have the liquidity and capital resources necessary to meet our known obligations and to make additional real estate acquisitions and capital improvements when appropriate to enhance long-term growth. Forward-looking statements are typically identified by the use of terms such as “expects,” “anticipates,” “intends,” “plans,” “believes,” “seeks,” “estimates,” and variations of those words and similar expressions. These forward-looking statements involve known and unknown risks, uncertainties, and other factors that may cause the actual results, performance, or achievements to be materially different from the results of operations, financial conditions, or plans expressed or implied by the forward-looking statements. Although we believe the expectations reflected in our forward-looking statements are based upon reasonable assumptions, we can give no assurance that our expectations will be achieved. Any statements contained herein that are not statements of historical fact should be deemed forward-looking statements. As a result, reliance should not be placed on these forward-looking statements, as these statements are subject to known and unknown risks, uncertainties, and other factors beyond our control and could differ materially from our actual results and performance.

The following factors, among others, could cause our future results to differ materially from those expressed in the forward-looking statements:

- economic conditions in the markets where we own properties or markets in which we may invest in the future;
- rental conditions in our markets, including occupancy levels and rental rates, our potential inability to renew tenants or obtain new tenants upon expiration of existing leases, changes in tax and housing laws, or other factors;
- adverse changes in real estate markets, including future demand for apartment homes in our significant markets, barriers of entry into new markets, limitations on our ability to increase rental rates, our ability to identify and consummate acquisitions and dispositions on favorable terms, our ability to reinvest sales proceeds successfully, and our ability to accommodate any significant decline in the market value of real estate serving as collateral for our mortgage obligations;
- inability to succeed in any new markets we may enter;
- failure of new acquisitions to achieve anticipated results or be efficiently integrated;
- inability to complete lease-up of our projects on schedule and on budget;
- inability to sell our non-core properties on terms that are acceptable;
- failure to reinvest proceeds from sales of properties into tax-deferred exchanges, which could necessitate special dividend and tax protection payments;
- inability to fund capital expenditures out of cash flow;
- inability to pay, or need to reduce, dividends on our common shares;
- financing risks, including our potential inability to obtain debt or equity financing on favorable terms, or at all;
- level and volatility of interest or capitalization rates or capital market conditions;
- changes in operating costs, including real estate taxes, utilities, and insurance costs;
- the availability and cost of casualty insurance for losses;
- inability to continue to satisfy complex rules in order to maintain our status as a REIT for federal income tax purposes, inability of the Operating Partnership to satisfy the rules to maintain its status as a partnership for federal income tax purposes, and the risk of changes in laws affecting REITs;
- inability to attract and retain qualified personnel;
  - cyber liability or potential liability for breaches of our privacy or information security systems;
- inability to comply with environmental laws and regulations; and
- other risks identified in this Report, in other SEC reports, or in other documents that we publicly disseminate.

Readers should carefully review our financial statements and the notes thereto, as well as the section entitled “Risk Factors” in Item 1A of this Annual Report on Form 10-K and the other documents we file from time to time with the Securities and Exchange Commission (“SEC”).

In light of these uncertainties, the events anticipated by our forward-looking statements might not occur. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. The foregoing review of factors that could cause our actual results to differ materially from those contemplated in any forward-looking statements included in this Annual Report on Form 10-K should not be construed as exhaustive.

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PART I

Item 1. Business

OVERVIEW

Investors Real Estate Trust (“we,” “us,” “IRET” or the “Company”) is a real estate investment trust (“REIT”) organized under the laws of North Dakota, that is focused on the ownership, management, acquisition, development, and redevelopment of apartment communities. Over the past several years, we have extensively repositioned our portfolio from a diversified, multi-segment collection of properties into a single segment focused on apartment communities. During the fiscal year ended April 30, 2018, we substantially completed this transformation by selling 50 commercial and other non-core multifamily properties for an aggregate sales price of \$515.1 million. We used a portion of the proceeds from these sales to purchase four apartment communities with 1,355 homes for \$373.1 million. Our current focus is on making operational enhancements that will improve our residents' experience, redeveloping some of our existing apartment communities to meet current market demands, and acquiring new apartment communities in the Minneapolis/St. Paul and Denver metropolitan areas.

We focus on investing in markets characterized by stable and growing economic conditions, strong employment, and an attractive quality of life that we believe, in combination, lead to higher demand for our apartment homes and retention of our residents. As of April 30, 2018, we owned interests in 90 multifamily communities, containing 14,176 apartment homes and having a total real estate investment amount, net of accumulated depreciation, of \$1.3 billion. Our corporate headquarters is located in Minot, North Dakota. We also have corporate offices in Minneapolis and St. Cloud, Minnesota, and additional property management offices located in the states where we own properties.

STRUCTURE

We were organized under the laws of North Dakota on July 31, 1970, and have operated as a REIT under Sections 856-858 of the Internal Revenue Code since our formation. On February 1, 1997, we were restructured as an Umbrella Partnership Real Estate Investment Trust, or UPREIT, and we conduct our daily business operations primarily through our operating partnership, IRET Properties, a North Dakota Limited Partnership (“IRET Properties” or the “Operating Partnership”). The sole general partner of IRET Properties is IRET, Inc., a North Dakota corporation and our wholly owned subsidiary. All of our assets (except for qualified REIT subsidiaries) and liabilities were contributed to IRET Properties, through IRET, Inc., in exchange for the sole general partnership interest in IRET Properties. IRET Properties holds substantially all of the assets of the Company. IRET Properties conducts the operations of the business and is structured as a partnership with no publicly traded equity. Contributions of properties to the Company can be structured as tax-deferred transactions through the issuance of Operating Partnership limited partnership units (“OP Units”), which is one of the reasons the Company is structured in this manner. As of April 30, 2018, IRET, Inc. owned an 89.4% interest in IRET Properties. The remaining interest in IRET Properties is held by individual limited partners.

BUSINESS STRATEGIES

Our business depends on successful investment in property acquisition and development in key geographic markets as well as effective management of those properties. The following is a discussion of our business strategies with respect to real estate investment and management.

Investment Strategy

Our business objective under our current strategic plan is to increase shareholder value by employing a disciplined investment strategy that includes the following elements:

- Investing in income-producing apartment communities in key geographic markets with populations ranking in the top 25 of metropolitan statistical areas, including expansion in the Minneapolis and Denver markets;
- Selecting markets with favorable market characteristics, including occupancy rates, supply pipeline, rent growth, income growth and employment forecasts;
- Focusing on our Midwest-centered portfolio that seeks to take advantage of our heightened market knowledge and regional experience;
- Building a strong market presence in new markets but limiting over-exposure to any given market; and

Deemphasizing our exposure to tertiary markets.

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### Operations Strategy

We manage our apartment communities by focusing on activities that should capitalize on market rental growth, tenant satisfaction and retention, and long-term asset appreciation. We intend to achieve these goals by utilizing the following strategies:

- Overseeing the quality and financial performance of our multifamily portfolio;
- Focusing on rigorous asset management in order to maximize value from new acquisitions and create value within the existing portfolio;
- Building and maintaining in-house expertise, including acquisitions and dispositions of apartment communities and redevelopment projects for existing apartment communities to improve the financial and physical aspects of these properties;
- Developing and maintaining strong internal systems and reporting mechanisms and using technology to unlock value within our portfolio; and
- Maintaining strong, vibrant apartment communities that maximize resident satisfaction.

We believe that providing quality apartment communities, maximizing rent collections and rates as market conditions allow, maintaining property occupancy at optimal levels, and controlling operating costs will help us maximize our financial results and enhance resident satisfaction.

### FINANCING AND DISTRIBUTIONS

To fund our investment and capital activities, we rely on a combination of issuance of senior securities, borrowed funds, and offering securities in exchange for property. We regularly issue dividends to our shareholders. Each of these is described below.

#### Issuance of Senior Securities

On August 7, 2012, we issued 4,600,000 shares of 7.95% Series B Cumulative Redeemable Preferred Shares of Beneficial Interest (the "Series B preferred shares"), and on October 2, 2017, we issued 4,118,460 shares of 6.625% Series C Cumulative Redeemable Preferred Shares of Beneficial Interest (the "Series C preferred shares"). All of the outstanding Series B preferred shares were redeemed on October 30, 2017. Depending on future interest rates and market conditions, we may issue additional preferred shares or other senior securities which would have dividend and liquidation preference over our common shares.

#### Bank Financing and Other Debt

As of April 30, 2018, we owned 99 properties, of which 58 properties served as collateral for mortgage loans and 41 properties were unencumbered by mortgages. Of the 58 properties that served as collateral for mortgage loans, the majority of these mortgages payable were non-recourse to us other than for standard carve-out obligations. Our primary unsecured credit facility is a revolving, multi-bank line of credit, with borrowing capacity based on the value of properties contained in the unencumbered asset pool. This credit facility matures on January 31, 2021, with one 12-month option to extend the maturity date at our election. In December 2017, we also entered into a \$70.0 million unsecured term loan, which matures on January 31, 2023. In addition, we increased the credit capacity of our revolving line of credit from \$250.0 million to \$300.0 million, and maintain a \$200.0 million accordion option that can be accessed by increasing lending commitments under the current agreement. In addition to this credit capacity, in March 2018, we entered into a \$6.0 million operating line of credit, which is designed to enhance treasury management activities and more effectively manage cash balances. As of April 30, 2018, our ratio of total indebtedness to total real estate investments was 41.7%.

#### Issuance of Securities in Exchange for Property

Our organizational structure allows us to issue shares and limited partnership units (or OP Units) of IRET Properties in exchange for real estate. The OP Units generally are redeemable, at the option of the holder, for cash, or, at our option, common shares on a one-for-one basis. Generally, limited partnership units receive the same per unit cash distributions as the per share dividends paid on common shares



Our Declaration of Trust, as amended (our “Declaration of Trust”), does not contain any restrictions on our ability to offer limited partnership units of IRET Properties in exchange for property. As a result, any decision to do so is vested solely in our Board of Trustees. For the three most recent fiscal years ended April 30, we have issued the following limited partnership units of IRET Properties in exchange for properties:

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|                                       | (in thousands) |          |
|---------------------------------------|----------------|----------|
|                                       | 2018           | 2017     |
| Limited partnership units issued      | —              | 2,559    |
| Value at issuance, net of issue costs | \$ \$-         | \$18,226 |

**Acquiring or Repurchasing Shares and Units**

It is our intention to invest only in real estate assets. Our Declaration of Trust does not prohibit the acquisition or repurchase of our common or preferred shares or other securities so long as such activity does not prohibit us from operating as a REIT under the Internal Revenue Code.

During fiscal year 2018, our Board of Trustees reauthorized a share repurchase program of up to \$50.0 million worth of our common shares, under which we repurchased approximately 1.8 million common shares on the open market at an average price of \$5.58 per share during fiscal year 2018. Subsequent to April 30, 2018, we repurchased approximately 118,000 common shares at an average price of \$5.18 per share through June 20, 2018.

During fiscal year 2018, we redeemed all of our outstanding Preferred B Shares for an aggregate redemption price of \$115.0 million. Such shares were redeemed on October 30, 2017, and were delisted from trading on the NYSE. During fiscal year 2018, we redeemed for cash approximately 1.5 million units held by limited partners at an average price of \$5.89 per unit.

**Distributions to Shareholders**

Distributions to shareholders and holders of limited partnership units. The Internal Revenue Code requires a REIT to distribute 90% of its net taxable income, excluding net capital gains, to its shareholders, and a separate requirement to distribute net capital gains or pay a corporate level tax in lieu thereof. We have distributed, and intend to continue to distribute, enough of our taxable income to satisfy these requirements. Our general practice has been to make cash distributions to our common shareholders and the holders of limited partnership units of approximately 65% to 90% of our funds from operations and to use the remaining funds for capital improvements or the purchase of additional properties. Distributions to our common shareholders and unitholders in fiscal years 2018 and 2017 totaled approximately 104% and 115%, respectively, on a per share and unit basis of our funds from operations. For additional information on our sources of liquidity and funds from operations, see Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Liquidity and Capital Resources."

**Employees**

As of April 30, 2018, we had 527 employees, of which 472 were full-time and 55 were part-time.

**ENVIRONMENTAL MATTERS**

See the discussion under the caption "Risks Related to Real Estate Investments and Our Operations -- The Company's portfolio may have environmental liabilities" in Item 1A, Risk Factors, for information concerning the potential effects of environmental matters on our business, which discussion under "The Company's portfolio may have environmental liabilities" is incorporated by reference into this Item 1.

**INSURANCE**

We purchase general liability and property insurance coverage for each of our properties. We also purchase limited terrorism, environmental and flood insurance as well as other types of insurance coverage related to a variety of risks and exposures. There are certain types of losses that may not be covered or could exceed coverage limits. Our insurance policies are also subject to deductibles and coverage limits. Although we believe that we have adequate insurance coverage on our properties, we may incur losses, which could be material, due to uninsured risks, deductibles and/or losses in excess of coverage limits, any of which could have a material adverse effect on our business.



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COMPETITION

There are numerous housing alternatives that compete with our apartment communities in attracting residents. Our apartment communities compete directly with other apartment communities, condominiums, and single-family homes in the areas in which our properties are located. If the demand for our apartment communities is reduced or competitors develop or acquire competing housing, rental and occupancy rates may decrease, which could have a material adverse effect on our business. Additionally, we compete with other real estate investors, including other REITs, businesses, and other entities to acquire properties. This competition affects our ability to acquire properties we want to add to our portfolio and the price we pay for acquisitions.

Website and Available Information

Our internet address is [www.iretapartments.com](http://www.iretapartments.com). We make available, free of charge, through the “SEC filings” tab under the Investors section of our website, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to such reports, and proxy statement for our Annual Meeting of Shareholders, filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after such reports are filed with or furnished to the SEC. We also file press releases, investor presentations, and certain supplemental information on our website. Current copies of our Code of Conduct; Code of Ethics for Senior Financial Officers; and Charters for the Audit, Compensation, Executive and Nominating and Governance Committees of our Board of Trustees are also available on our website under the “Corporate Governance” tab under the Investors section of our website. Copies of these documents are also available free of charge to shareholders upon request addressed to the Secretary at Investors Real Estate Trust, P.O. Box 1988, Minot, North Dakota 58702-1988. Information on our website does not constitute part of this Annual Report on Form 10-K.

Item 1A. Risk Factors

Risks Related to Our Properties and Operations

We face certain risks related to our ownership of apartment communities and operation of our business. Set forth below are the risks that we believe are material to IRET’s shareholders and unitholders. You should carefully consider the following risks in evaluating our properties, business, and operations. Our business, financial condition, cash flows, results of operations, value of our real estate assets and/or the value of an investment in our stock or units are subject to various risks and uncertainties, including those set forth below, any of which could cause our actual operating results to vary materially from our recent results or from our anticipated future results.

Our financial performance is subject to risks associated with the real estate industry and ownership of apartment communities. Our financial performance risks include, but are not limited to, the following:

- downturns in national, regional, and local economic conditions (particularly increases in unemployment);
- competition from other apartment communities;
- local real estate market conditions, including an oversupply of apartments or other housing, or a reduction in demand for apartment communities;
- the attractiveness of our apartment communities to tenants as well as tenants' perceptions of the safety, convenience, and attractiveness of our apartment communities and the areas in which they are located;
- changes in interest rates and availability of attractive financing that might make other housing options, like home ownership, more attractive;
- our ability to collect rents from our tenants;
- vacancies, changes in rental rates, and the periodic need to repair, renovate, and redevelop our apartment communities;
- increases in operating costs, including real estate taxes, state and local taxes, insurance expenses, utilities, and security costs, many of which are not reduced significantly when circumstances cause a reduction in revenues from a property;
- our ability to provide adequate maintenance and insurance on our apartment communities; and
- changes in tax laws and other government regulations that could affect the value of REITs generally or our business in particular.



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Our property acquisition activities may not produce the cash flows expected and could subject us to various risks that could adversely affect our operating results. We have acquired and intend to continue to pursue the acquisition of apartment communities, but the success of our acquisition activities is subject to numerous risks, including the following:

- acquisition agreements are subject to customary closing conditions, including completion of due diligence investigations, and we may be unable to complete an acquisition after making a non-refundable deposit and incurring other acquisition-related costs;
- expected occupancy, rental rates, and operating expenses of acquired apartment communities may differ from the actual results, or from those of our existing apartment communities;
- we may be unable to obtain financing for acquisitions on favorable terms, or at all;
- competition for these properties could cause us to pay higher prices for new properties or prevent us from purchasing a desired property at all;
- we may be subject to unknown liabilities from acquired properties, with either no recourse or limited recourse against prior owners or other third parties with respect to these unknown liabilities; and
- we may be unable to quickly and efficiently integrate new acquisitions into our existing operations.

We may be unable to acquire or develop properties and expand our operations into new or existing markets successfully. We intend to explore acquisitions or developments of properties in new and existing geographic markets. Acquiring or developing new properties and expanding into new markets introduces several risks, including but not limited to the following:

- we may not be successful in identifying suitable properties or other assets that meet our acquisition or development criteria or in consummating acquisitions or developments on satisfactory terms, or at all;
- we may be unable to maintain consistent standards, controls, policies, and procedures, or realize the anticipated benefits of the acquisitions within the anticipated timeframe, or at all;
- acquisitions and divestitures could divert our attention from our existing properties and could cause us to lose key employees or be unable to attract highly qualified new employees;
- unfamiliarity with the dynamics and prevailing conditions of any new geographic markets could adversely affect our ability to successfully expand into or operate within those markets or cause us to become more dependent on third parties in new markets due to our inability to directly and efficiently manage and otherwise monitor new properties in new markets;
- we may make assumptions regarding the expected future performance of acquired properties, including expected occupancy, rental rates, and cash flows, that prove to be inaccurate; and
- we may improperly estimate the costs of repositioning or redeveloping an acquired property.

Risks related to properties under development, redevelopment or newly developed properties may adversely affect our financial performance. We may be unable to obtain, or may suffer delays in obtaining, necessary zoning, land-use, building, occupancy, and other required governmental permits and authorizations, which could lead to increased costs or abandonment of projects. We may not be able to obtain financing on favorable terms, or at all, and we may not be able to complete lease-up of a property on schedule. The resulting time required for development, redevelopment, and lease-up means that we may have to wait years for significant cash returns.

Competition may negatively impact our earnings. We compete with many kinds of institutions, including other REITs, private partnerships, individuals, pension funds, and banks in attracting tenants and finding investment opportunities. Many of these institutions are active in the markets in which we invest and have greater financial and other resources than we do. Our apartment communities compete directly with other multifamily apartment communities, single-family homes, condominiums, and other short-term rentals.

Short-term leases could expose us to the effects of declining market rents. Our apartment leases are generally for a term of 18 months or less. Because these leases generally allow residents to leave at the expiration of the lease term without penalty, our rental revenues are impacted by declines in market rents more quickly than if our leases were for longer terms.

Because real estate investments are relatively illiquid, and various factors limit our ability to dispose of assets, we may not be able to sell properties when appropriate. We may have limited ability to change our portfolio of properties

quickly in response to our strategic plan and changes in economic or other conditions, and the prohibitions under the federal income tax laws on REITs holding property for sale and related regulations may affect our ability to sell properties. Under certain circumstances, the Code

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imposes penalties on a REIT that sells property held for less than two years and limits the number of properties it can sell in a given year. Our ability to dispose of assets also may be limited by constraints on our ability to use disposition proceeds to make acquisitions on financially attractive terms and the requirement that we take additional impairment charges on certain assets. More specifically, we are required to distribute or pay tax on all capital gains generated from the sale of assets. Some of our properties were acquired using limited partnership units of IRET Properties, our operating partnership, and are subject to certain agreements that restrict our ability to sell these properties in transactions that would create current taxable income to the former owners. As a result, we are motivated to structure the sale of these assets as tax-free exchanges, the requirements of which are technical and may be difficult to achieve. Our real estate assets may be subject to impairment charges. We periodically evaluate the recoverability of the carrying value of our real estate assets under United States generally accepted accounting principles (“GAAP”). Factors considered in evaluating impairment of our real estate assets held for investment include significant declines in net operating income, recurring net operating losses, and other significant adverse changes in general market conditions that are considered permanent in nature. Generally, a real estate asset held for investment is not considered impaired if the estimated undiscounted future cash flows of the asset over its estimated holding period are in excess of the asset’s net book value at the balance sheet date. Assumptions used to estimate annual and residual cash flow and the estimated holding period of these assets require the judgment of management.

Inability to manage growth effectively may adversely affect our operating results. We have experienced significant growth at various times in the past, principally through the acquisition of additional real estate properties. Effective management of rapid growth presents challenges, including:

- the need to expand our management team and staff;
- the need to enhance internal operating systems and controls; and
- the ability to consistently achieve targeted returns on individual properties.

We may not be able to maintain similar rates of growth in the future or manage our growth effectively.

Adverse changes in taxes and other laws may affect our liabilities relating to our properties and operations. Increases in real estate taxes and service and transfer taxes may adversely affect our cash available for distributions and our ability to pay amounts due on our debt. Similarly, changes in laws that increase the potential liability for environmental conditions or that affect development, construction, and safety requirements may result in significant unanticipated costs. Future enactment of rent control or rent stabilization laws or other laws regulating apartment communities may reduce rental revenues or increase operating costs.

We may be unable to retain or attract qualified management. We are dependent upon our senior officers for essentially all aspects of our business operations. Our senior officers have experience in the real estate industry, and the loss of them would likely have a material adverse effect on our operations and could adversely impact our relationships with lenders and industry personnel. We do not have employment contracts with any of our senior officers. As a result, any senior officer may terminate his or her relationship with us at any time, without providing advance notice. If we fail to effectively manage a transition to new personnel, or if we fail to attract and retain qualified and experienced personnel on acceptable terms, it could adversely affect our business.

Risks related to joint ventures may adversely affect our financial performance and results of operations. We have entered into, and may continue in the future to enter into, partnerships or joint ventures with other persons or entities. Joint venture investments involve risks that may not be present with other methods of ownership, including the possibility that:

- our partner might become insolvent, refuse to make capital contributions when due, or otherwise fail to meet its obligations, which may result in certain liabilities to us for guarantees and other commitments;
- our partner might at any time have economic or other business interests or goals that are or become inconsistent with our interests or goals;
- we could become engaged in a dispute with our partner, which could require us to expend additional resources to resolve such disputes; or
- our partner may be in a position to take action or withhold consent contrary to our instructions or requests, which could restrict our ability to transfer our interest in a joint venture to a third party.



In some instances, we and/or our partner may have the right to trigger a buy-sell arrangement, which could cause us to sell our interest, or acquire our partner's interest, at a time when we otherwise would not have initiated such a transaction. Our ability to acquire our partner's interest may be limited if we do not have sufficient cash, available borrowing capacity, or other capital resources. In such event, we may be forced to sell our interest in the joint venture when we would otherwise prefer to retain it. Joint ventures may require us to share decision-making authority with our partners, which could limit our ability to control the

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properties in the joint ventures. Even when we have a controlling interest, certain major decisions may require partner approval, such as the sale, acquisition, or financing of a property.

We face risks associated with security breaches through cyber-attacks, cyber intrusions, or otherwise, which could pose a risk to our systems, networks, and services. We face risks associated with security breaches or disruptions, whether through cyber-attacks or cyber intrusions over the Internet, malware, computer viruses, attachments to emails, or persons inside our organization. The risk of a security breach or disruption, particularly through cyber-attacks or cyber intrusion, including by computer hackers, foreign governments and cyber terrorists, has generally increased as the number, intensity, and sophistication of attempted attacks and intrusions around the world have increased. In the normal course of business, we and our service providers (including service providers engaged in providing web hosting, property management, leasing, accounting and/or payroll software/services) collect and retain certain personal information provided by our tenants, employees, and vendors. We also rely extensively on computer systems to process transactions and manage our business. While we and our service providers employ a variety of data security measures to protect confidential information on our systems and periodically review and improve our data security measures, we cannot provide assurance that we or our service providers will be able to prevent unauthorized access to this personal information, that our efforts to maintain the security and integrity of the information that we and our service providers collect will be effective, or that attempted security breaches or disruptions would not be successful or damaging. Even the most well-protected information, networks, systems, and facilities remain potentially vulnerable because the techniques used in such attempted security breaches evolve and generally are not recognized until launched against a target. In some cases, these breaches are designed not to be detected and, in fact, may not be detected. Accordingly, we and our service providers may be unable to anticipate these techniques or to implement adequate security barriers or other preventative measures, thereby making it impossible to entirely mitigate this risk. A security breach or other significant disruption involving computer networks and related systems could cause substantial costs and other negative measures, including litigation, remediation costs, costs to deploy additional protection strategies, compromising of confidential information, and reputational damage adversely affecting investor confidence.

Complying with laws benefiting disabled persons or other safety regulations and requirements may affect our costs and investment strategies. Federal, state, and local laws and regulations designed to improve disabled persons' access to and use of buildings, including the Americans with Disabilities Act of 1990, may require modifications to, or restrict renovations of, existing buildings that may require unexpected expenditures. These laws and regulations may require that structural features be added to buildings under construction. Legislation or regulations that may be adopted in the future may impose further burdens or restrictions on us with respect to improved access to, and use of these buildings by, disabled persons. Noncompliance could result in the imposition of fines by government authorities or the award of damages to private litigants. The costs of complying with these laws and regulations may be substantial, and limits or restrictions on construction, or the completion of required renovations, may limit the implementation of our investment strategy or reduce overall returns on our investments.

We may be responsible for potential liabilities under environmental laws. Under various federal, state, and local laws, ordinances and regulations, we, as a current or previous owner or operator of real estate, may be liable for the costs of removal or remediation of hazardous or toxic substances in, on, around, or under that property. These laws may impose liability without regard to whether we knew of, or were responsible for, the presence of the hazardous or toxic substances. The presence of these substances, or the failure to properly remediate any property containing these substances, may adversely affect our ability to sell or rent the affected property or to borrow funds using the property as collateral. In arranging for the disposal or treatment of hazardous or toxic substances, we also may be liable for the costs of removal of, or remediation of, these substances at that disposal or treatment facility, whether or not we own or operate the facility. In connection with our current or former ownership (direct or indirect), operation, management, development, and/or control of real properties, we may be potentially liable for removal or remediation costs with respect to hazardous or toxic substances at those properties, as well as certain other costs, including governmental fines and claims for injuries to persons and property. Although we are not aware of any such claims associated with our existing properties that would have a material adverse effect on our business, potential future costs and damage claims may be substantial and could exceed any insurance coverage we may have for such events or such coverage

may not exist. The presence of such substances, or the failure to properly remediate any such impacts, may adversely affect our ability to borrow against, develop, sell, or rent the affected property. Some environmental laws create or allow a government agency to impose a lien on the impacted property in favor of the government for damages and costs it incurs as a result of responding to hazardous or toxic substances.

Environmental laws also govern the presence, maintenance, and removal of asbestos, and require that owners or operators of buildings containing asbestos properly manage and maintain the asbestos; notify and train those who may come into contact with asbestos; and undertake special precautions if asbestos would be disturbed during renovation or demolition of a building. Indoor air quality issues may also necessitate special investigation and remediation. These air quality issues can result from inadequate ventilation, chemical contaminants from indoor or outdoor sources, or biological contaminants such as molds, pollen, viruses and bacteria. Asbestos or air quality remediation programs could be costly, necessitate the temporary relocation of some or all of the property's tenants, or require rehabilitation of an affected property.

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It is generally our policy to obtain a Phase I environmental study on each property that we seek to acquire. A Phase I environmental study generally includes a visual inspection of the property and the surrounding areas, an examination of current and historical uses of the property and the surrounding areas, and a review of relevant state and federal documents but does not involve invasive techniques such as soil and ground water sampling. If the Phase I indicates any possible environmental problems, our policy is to order a Phase II study, which involves testing the soil and ground water for actual hazardous substances. However, Phase I and Phase II environmental studies, or any other environmental studies undertaken with respect to any of our current or future properties, may not reveal the full extent of potential environmental liabilities. We currently do not carry insurance for environmental liabilities.

Our current or future insurance may not protect us against possible losses. We carry comprehensive liability, fire, extended coverage, and other insurance with respect to our properties at levels that we believe to be adequate and comparable to coverage customarily obtained by owners of similar properties. However, the coverage limits of our current or future policies may be insufficient to cover the full cost of repair or replacement of all potential losses, or our level of coverage may not continue to be available in the future or, if available, may be available only at unacceptable cost or with unacceptable terms. We also do not maintain coverage for certain catastrophic events like hurricanes and earthquakes due to the location of our properties. In most cases, we have to renew our insurance policies on an annual basis and negotiate acceptable terms for coverage, exposing us to the volatility of the insurance markets, including the possibility of rate increases. Any material increases in insurance rates or decrease in available coverage in the future could adversely affect our results of operations.

Litigation risks could affect our business. As a publicly traded owner, manager, and developer of apartment communities, we may incur liability based on various conditions at our properties and the buildings thereon. In the past, we have been, and in the future may become, involved in legal proceedings, including consumer, employment, tort, or commercial litigation, any of which if decided adversely to us or settled by us and not adequately covered by insurance, could result in liability that could be material to our results of operations.

Catastrophic weather, natural events, and climate change could adversely affect our business. Some of our apartment communities are located in areas that may experience catastrophic weather and other natural events from time to time, including snow or ice storms, flooding, mudslides, tornadoes, or other severe or inclement weather. These adverse and natural events could cause damage or losses that may be greater than insured levels. In the event of a loss in excess of insured limits, we could lose all or a portion of our investment in an affected property as well as additional revenue from that apartment community. We may continue to be obligated to repay mortgage indebtedness or other obligations related to an affected apartment community.

To the extent that we experience any significant changes in the climate in areas where our apartment communities are located, we may experience extreme weather conditions and prolonged changes in precipitation and temperature, all of which could result in physical damage to, and/or a decrease in demand for, our apartment communities located in these areas. If the impact of any such climate change were to be material, or occur for a lengthy period of time, our business may be adversely affected.

Actual or threatened terrorist attacks may adversely affect our business. Actual or threatened terrorist attacks and other acts of war or violence could adversely affect our business. Attacks that directly impact one or more of our apartment communities could significantly affect our ability to operate these communities, thereby impairing our ability to achieve our expected results. Our insurance may not adequately cover all losses from a terrorist attack, and the ongoing effects of any terrorist attacks or threatened terrorist attacks could adversely affect the U.S. economy generally and our business in particular.

Potential changes to the condition of Fannie Mae and Freddie Mac and in government support for apartment communities may adversely affect our business. Historically, we have depended on the Federal National Mortgage Association ("Fannie Mae") and the Federal Home Loan Mortgage Corporation ("Freddie Mac") to provide financing for certain apartment communities. Although Fannie Mae and Freddie Mac have a mandate to support multifamily housing through their financing activities, there are current government proposals relating to the future of agency mortgage finance in the U.S. that could involve the phase-out of Fannie Mae and Freddie Mac. Although we believe that Fannie Mae and Freddie Mac will continue to provide liquidity to the multifamily sector, any phase-out of Fannie Mae and Freddie Mac, change in their mandate, or reduction in government support for apartment communities

generally could result in adverse changes to interest rates, capital availability, development of additional apartment communities, and the value of these communities.

Expanding social media usage could present new risks. The use of social media could cause us to suffer broad reputational damage. Negative posts or comments about us on any social networking website, or disclosure of any non-public sensitive information relating to our business, could damage our reputation. The continuing evolution of social media will present us with new and ongoing challenges and risks.

Employee theft or fraud could result in loss. Certain employees have access to, or signature authority with respect to, our bank accounts or assets, which exposes us to the risk of fraud or theft. Certain employees also have access to key information technology

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(“IT”) infrastructure and to tenant and other information that may be commercially valuable. If any employee were to compromise our IT systems, or misappropriate tenant or other information, we could incur losses, including potentially significant financial or reputational harm. We may not have insurance that covers any losses in full or covers losses from particular criminal acts.

**Risks Related to Our Indebtedness and Financings**

Our inability to renew, repay, or refinance our debt may result in losses. We incur a significant amount of debt in the ordinary course of our business and in connection with acquisitions of real properties. Because we have a limited ability to retain earnings as a result of the REIT distribution requirements, we will generally be required to refinance debt that matures with additional debt or equity. We are subject to the normal risks associated with debt financing, including the risks that:

- our cash flow will be insufficient to meet required payments of principal and interest;
- we will not be able to renew, refinance, or repay our indebtedness when due; and
- the terms of any renewal or refinancing will be less favorable than the terms of our current indebtedness.

These risks increase when credit markets are tight. In general, when the credit markets are tight, we may encounter resistance from lenders when we seek financing or refinancing for properties or proposed acquisitions, and the terms of such financing or refinancing are likely to be less favorable to us than the terms of our current indebtedness.

We anticipate that we will need to refinance a significant portion of our outstanding debt as it matures. We cannot guarantee that any refinancing of debt with other debt will be possible on terms that are favorable or acceptable to us. If we cannot refinance, extend, or pay principal payments due at maturity with the proceeds of other capital transactions, our cash flows may not be sufficient in all years to repay debt as it matures. If we are unable to refinance our indebtedness on acceptable terms, or at all, we may be forced to dispose of one or more properties on disadvantageous terms, which may result in losses. These losses could have a material adverse effect on our business, our ability to make distributions to our shareholders, and our ability to pay amounts due on our debt. If a property is mortgaged to secure payment of indebtedness and we are unable to meet mortgage payments or refinance the debt at maturity, the mortgagor could foreclose upon the property, appoint a receiver, and receive an assignment of rents and leases or pursue other remedies, including taking ownership of the property, all with a consequent loss of revenues and asset value. Foreclosures also could affect our ability to obtain new debt and could create taxable income without accompanying cash proceeds, thereby hindering our ability to meet the REIT distribution requirements of the Code and impeding our ability to obtain financing for our other properties.

The restrictive terms of indebtedness may cause acceleration of debt payments and constrain our ability to conduct certain transactions. At April 30, 2018, we and our Operating Partnership had outstanding borrowings of approximately \$706.1 million. Some of this indebtedness contains financial covenants relating to fixed charge coverage ratios, maximum secured debt, maintenance of unencumbered asset value, and total debt to gross assets, among others. Some covenants present new constraints as we navigate investments and dispositions with respect to our ability to invest in certain markets, add incremental secured and recourse debt, and add overall leverage. If an event of default occurs, our lenders may declare borrowings under the loan agreements to be due and payable immediately, which could have an adverse effect our ability to make distributions to our shareholders and pay amounts due on our debt.

Rising interest rates may affect our cost of capital and financing activities. Interest rates have been rising recently, and some of our mortgage debt has varying interest rates dependent upon certain market indexes. Rising interest rates could limit our ability to refinance portions of our fixed-rate indebtedness when it matures and would increase our interest costs. We also have an unsecured credit facility that bears interest at variable rates based on amounts drawn. As a result, any further increase in interest rates could increase our interest expense on our variable rate debt, increase our interest rates when refinancing fixed-rate debt, increase the cost of issuing new debt, and reduce the cash available for distribution to shareholders.

Interest rate hedging arrangements may result in losses. From time to time, we use interest rate swaps and other hedging instruments to manage our interest rate risks. Although these arrangements may partially protect us against rising interest rates, they also may reduce the benefits to us if interest rates decline. If a hedging arrangement is not indexed to the same rate as the indebtedness that is hedged, we may be exposed to losses to the extent that the rate

governing the indebtedness and the rate governing the hedging arrangement change independently of each other, and nonperformance by the other party to the hedging arrangement also may subject us to increased credit risks. In order to minimize any counterparty credit risk, we enter into hedging arrangements only with investment grade financial institutions.

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### Risks Related to Our Shares

Our stock price may fluctuate significantly. The market price and trading volume of our common shares are subject to fluctuation due to general market conditions, the risks discussed in this report, and several other factors, including the following:

- regional, national, and global economic and business conditions;
- actual or anticipated changes in our quarterly operating results or dividends;
- changes in our funds from operations or earnings estimates;
- investor interest in our property portfolio;
- the market perception and performance of REITs in general;
- the market perception or trading volume of REITs relative to other investment opportunities;
- the market perception of our financial condition, performance, distributions, and growth potential;
- general stock and bond market conditions, including potential increases in interest rates that could lead investors to seek high annual yield from dividends;
- shifts in our investor base to a higher concentration of passive investors, including exchange-traded funds and index funds, that could have an adverse effect on our ability to communicate with our shareholders;
- our ability to access capital markets, which could impact our cost of capital;
- a change in our credit rating or analyst ratings;
- changes in minimum dividend requirements;
- terrorism or other factors that adversely impact the markets in which our stock trades; and
- changes in tax laws or government regulations that could affect the attractiveness of our stock.

Rising interest rates could have an adverse effect on our share price, and low trading volume on the NYSE may prevent the timely resale of our shares. If interest rates continue to increase, this could cause holders of our common stock and other investors to seek higher dividends on our shares or higher yields through other investments, which could adversely affect the market price of our shares. Although our common shares are listed on the NYSE, the daily trading volume of our shares may be lower than the trading volume for other companies. As a result of lower trading volume, an owner of our common shares may encounter difficulty in selling our shares in a timely manner and may incur a substantial loss.

Failure to generate sufficient revenue or other liquidity needs could limit cash flow available for distributions to our shareholders. A decrease in rental revenue, an increase in funding to support our acquisition and development needs, or other unmet liquidity needs could have an adverse effect on our ability to pay distributions to our shareholders or the Operating Partnership's unitholders.

Payment of distributions on our common shares is not guaranteed. Our Board of Trustees must approve any stock distributions and may elect at any time, or from time to time, and for an indefinite duration, to reduce or not pay the distributions payable on our common shares. Our Board may reduce distributions for a variety of reasons, including but not limited to the following:

- operating and financial results cannot support the current distribution payment;
- unanticipated costs, capital requirements, or cash requirements;
- annual distribution requirements under the REIT provisions of the Code;
- a conclusion that the payment of distributions would cause us to breach the terms of certain agreements or contracts, such as financial ratio covenants in our debt financing documents; or
- other factors the Board of Trustees may consider relevant.

Our future growth depends, in part, on our ability to raise additional equity capital, which will have the effect of diluting the interests of our common shareholders. Our future growth depends upon, among other things, our ability to raise equity capital and issue limited partnership units of IRET Properties. Sales of substantial amounts of our common or preferred shares in the public market, or substantial issuances of our common shares in connection with redemption requests for limited partnership units, or the perception that such sales or issuances might occur, will dilute the interests of the current common shareholders and could adversely affect the market price of our common shares.





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We may issue additional classes or series of our shares of beneficial interest with rights and preferences that are superior to the rights and preferences of our common shares. Without the approval of our common shareholders, our Board of Trustees may establish additional classes or series of our shares of beneficial interest, and such classes or series may have dividend rights, conversion rights, voting rights, terms of redemption, redemption prices, liquidation preferences, or other rights and preferences that are superior to the rights of the holders of our common shares. In that regard, in September 2017, we filed a new shelf registration statement with the SEC that enables us to sell an undetermined number of equity and debt securities as defined in the prospectus. Future sales of common stock, preferred stock, or convertible debt securities may dilute current shareholders and could have an adverse impact on the market price of our common stock.

Our rating by proxy advisory firms or other corporate governance consultants advising institutional investors could have an adverse effect on the perception of our corporate governance and thereby negatively impact the market price of our common stock. Various proxy advisory firms and other corporate governance consultants advising institutional investors provide scores or ratings of our corporate governance, executive compensation practices, and other matters that may be submitted to shareholders in connection with our annual meetings. From time to time, certain matters that we propose for approval may not receive a favorable score or rating or might even result in a negative score or rating or recommendation against the matter proposed. In these situations, unfavorable scores or ratings may lead to rejected proposals, which could lead to decreases in our market price. Although we periodically review our corporate governance measures and consider implementing changes that we believe to be responsive to concerns that have been raised, there may be times when we decide not to implement changes recommended by proxy advisors or other corporate governance consultants because we do not believe that such changes are in the best interests of IRET and our shareholders, notwithstanding the negative effect that such a decision could have on our ratings or stock price. Any material weaknesses identified in our internal control over financial reporting could adversely affect our stock price. Section 404 of the Sarbanes-Oxley Act of 2002 requires us to evaluate and report on our internal control over financial reporting. If we were to identify one or more material weaknesses in our internal control over financial reporting, we could lose investor confidence in our financial reporting and results of operations, which in turn could have an adverse effect on our stock price.

**Risks Related to Our Tax Status**

We may incur tax liabilities as a consequence of failing to qualify as a REIT, which could force us to borrow funds during unfavorable market conditions. We have elected to be taxed as a REIT under the Code. Qualification as a REIT involves the application of highly technical and complex Code provisions, including income, asset, and distribution tests, for which there are only limited judicial or administrative interpretations. Even a technical or inadvertent mistake could endanger our REIT status. The determination that we qualify as a REIT requires an ongoing analysis of various factual matters and circumstances, some of which may not be within our control. For example, in order to qualify as a REIT, at least 95% of our gross income in any year must come from certain passive sources that are itemized in the REIT tax laws, and we are prohibited from owning specified amounts of debt or equity securities of some issuers. Thus, to the extent revenues from non-qualifying sources, such as income from third-party management services, represent more than 5% of our gross income in any taxable year, we will not satisfy the 95% income test and may fail to qualify as a REIT, unless certain relief provisions contained in the Code apply. Even if relief provisions apply, however, a tax would be imposed with respect to excess net income. We are also required to make distributions to the holders of our securities of at least 90% of our REIT taxable income, determined before a deduction for dividends paid and excluding any net capital gain. To the extent that we satisfy the 90% test but distribute less than 100% of our REIT taxable income, we will be subject to corporate income tax on such undistributed income and could be subject to an additional 4% excise tax. Because we need to meet these tests to maintain our qualification as a REIT, it could cause us to have to forego certain business opportunities and potentially require us to liquidate otherwise attractive investments. The fact that we hold substantially all of our assets (except for qualified REIT subsidiaries) through IRET Properties, our operating partnership, and its subsidiaries, and our ongoing reliance on factual determinations, such as determinations related to the valuation of our assets, further complicates the application of the REIT requirements for us. If IRET Properties or one or more of our subsidiaries is determined to be taxable as a corporation, we may fail to qualify as a REIT. Either our failure to qualify as a REIT, for any reason,

or the imposition of taxes on excess net income from non-qualifying sources, could adversely affect our business and our ability to make distributions to our shareholders and pay amounts due on our debt. New legislation, regulations, administrative interpretations or court decisions could change the tax laws with respect to our qualification as a REIT or the federal income tax consequences of our qualification.

If we were to fail to qualify as a REIT, we would be subject to federal income tax on our taxable income at regular corporate rates, could be subject to increased state and local taxes and, unless entitled to relief under applicable statutory provisions, would be disqualified from treatment as a REIT for the four taxable years following the year during which we lost our qualification, which would likely have a material adverse effect on us, our ability to make distributions to our shareholders, and our ability to pay amounts due on our debt. This treatment would reduce funds available for investment or distributions to the holders of our securities due to the additional tax liability to us for the year or years involved, and we would no longer be able to deduct, and would not be required to make, distributions to our shareholders. To the extent that distributions to the holders of our securities had been

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made in anticipation of qualifying as a REIT, we may need short-term debt or long-term debt or proceeds from asset sales or sales of common shares to fund required distributions as a result of differences in timing between the actual receipt of income and the recognition of income for federal income tax purposes, or the effect of non-deductible capital expenditures, the creation of reserves or required debt or amortization payments. The inability of our cash flows to cover our distribution requirements could have an adverse impact on our ability to raise short and long-term debt or sell equity securities in order to fund distributions required to maintain our REIT status.

Failure of our operating partnership to qualify as a partnership would adversely affect us. We believe that IRET Properties, our operating partnership, qualifies as a partnership for federal income tax purposes. However, we can provide no assurance that the IRS will not challenge its status as a partnership for federal income tax purposes or that a court would not sustain such a challenge. If the IRS were to be successful in treating IRET Properties as an entity taxable as a corporation (such as a publicly traded partnership taxable as a corporation), we would cease to qualify as a REIT because the value of our ownership interest in IRET Properties would exceed 5% of our assets and because we would be considered to hold more than 10% of the voting securities and value of the outstanding securities of another corporation. The imposition of a corporate tax on IRET Properties would significantly reduce the amount of cash available for distribution.

Certain provisions of our Declaration of Trust may limit a change in control and deter a takeover. In order to maintain our qualification as a REIT, our Declaration of Trust provides that any transaction that would result in our disqualification as a REIT under Section 856 of the Code will be void, including any transaction that would result in the following:

- a person owning in excess of the ownership limit of 9.8%, in number or value, of our outstanding shares;
- less than 100 people owning our shares;
- our being “closely held” within the meaning of Section 856(h) of the Code; or
- 50% or more of the fair market value of our shares being held by persons other than “United States persons.”

If the transaction is not void, then the shares in violation of the foregoing conditions will automatically be exchanged for an equal number of excess shares, and these excess shares will be transferred to an excess share trustee for the exclusive benefit of the charitable beneficiaries named by our Board of Trustees. These limitations may have the effect of preventing a change in control or takeover of us by a third party, even if the change in control or takeover would be in the best interests of our shareholders.

Legislative or regulatory actions affecting REITs could have an adverse effect on us or our shareholders. Changes to the tax laws could adversely affect us or our shareholders. In 2017, Congress passed tax legislation (the “2017 Tax Cuts and Jobs Act”) that significantly changed the U.S. federal income taxation of U.S. businesses and their owners, including REITs and their shareholders. Although the 2017 Tax Cuts and Jobs Act was recently passed, there can be no assurance that future changes to the U.S. federal income tax laws or regulations will not be proposed or enacted that could impact our business and financial results. The REIT rules are constantly under review by persons involved in the legislative process and by the Internal Revenue Service and the U.S. Treasury Department, which may result in revisions to regulations and interpretations as well as statutory changes. If enacted, certain changes could have an adverse impact on our business. The Tax Cuts and Jobs Act of 2017 also contained provisions that may reduce the relative competitive advantage of operating as a REIT. For example, the Tax Cuts and Jobs Act of 2017 lowered income tax rates on individuals and corporations, easing the burden of double taxation on corporate dividends and potentially causing the single level of taxation on REIT distributions to be relatively less attractive. The Tax Cuts and Jobs Act of 2017 also contains provisions allowing the expensing of capital expenditures, which could result in the bunching of taxable income and required distributions for REITs, and provisions further limiting the deductibility of interest expense, which could disrupt the real estate market. We cannot predict whether, when, or to what extent the Tax Cuts and Jobs Act of 2017 and any new U.S. federal tax laws, regulations, interpretations, or rulings will impact the real estate investment industry or REITs. Prospective investors are urged to consult their tax advisers regarding the effect of the Tax Cuts and Jobs Act of 2017 and potential future changes to the federal tax laws of an investment in our shares or units.

Dividends payable by REITs may be taxed at higher rates than dividends of non-REIT corporations, which could reduce the net cash received by our shareholders and may be detrimental to our ability to raise additional funds

through any future sale of our stock. Dividends paid by REITs to U.S. shareholders that are individuals, trusts, or estates are generally not eligible for the reduced tax rate applicable to qualified dividends received from non-REIT corporations but, under the 2017 Tax Cuts and Jobs Act, U.S. shareholders that are individuals, trusts, and estates generally may deduct 20% of ordinary dividends from a REIT (for taxable years beginning after December 31, 2017 and before January 1, 2026). Although this deduction reduces the effective tax rate applicable to certain dividends paid by REITs, such tax rate is still higher than the tax rate applicable to regular corporate qualified dividends. This may cause investors to view REIT investments as less attractive than investments in non-REIT corporations, which in turn may adversely affect the value of stock in REITs, including our stock. Investors should consult with their tax advisers regarding the U.S. tax consequences of an investment in our stock or units.

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We may face risks in connection with Section 1031 exchanges. From time to time, we dispose of properties in transactions intended to qualify as “like-kind exchanges” under Section 1031 of the Code. If a transaction intended to qualify as a Section 1031 exchange is later determined to be taxable, we may face adverse consequences, and if the laws applicable to such transactions are amended or repealed, we may not be able to dispose of properties on a tax-deferred basis. If we are unable to meet the technical requirements of a desired Section 1031 exchange, we may be required to make a special dividend payment to our shareholders if we are unable to mitigate the taxable gains realized.

Complying with REIT requirements may force us to forego otherwise attractive opportunities or liquidate otherwise attractive investments. To qualify and maintain our status as a REIT, we must satisfy certain requirements with respect to the character of our assets. If we fail to comply with these requirements at the end of any quarter, we must correct such failure within 30 days after the end of the quarter (by, possibly, selling assets notwithstanding their prospects as an investment) to avoid losing our REIT status. This could include potentially selling otherwise attractive assets or liquidating or foregoing otherwise attractive investments. These actions could reduce our income and amounts available for distribution to our shareholders.

Even if we qualify as a REIT, we may face other tax liabilities that reduce our cash flows. Even if we qualify for taxation as a REIT, we may be subject to certain federal, state, and local taxes on our income and assets, including taxes on any undistributed income, tax on income from some activities conducted as a result of a foreclosure, and state or local income, property, and transfer taxes, such as mortgage recording taxes. Any of these taxes would decrease cash available for distribution to our shareholders.

The tax imposed on REITs engaging in prohibited transactions and our agreements entered into with certain contributors of our properties may limit our ability to engage in transactions that would be treated as sales for federal income tax purposes. The federal income tax provisions applicable to REITs provide that any gain realized by a REIT on the sale of property held as inventory or other property held primarily for sale to customers in the ordinary course of business is treated as income from a “prohibited transaction” that is subject to a 100% penalty tax. Under current law, unless a sale of real property qualifies for a safe harbor, the question of whether the sale of a property constitutes the sale of property held primarily for sale to customers is generally a question of the facts and circumstances regarding a particular transaction. We may make sales that do not satisfy the requirements of the safe harbors, or the IRS may successfully assert that one or more of our sales are prohibited transactions and, as a result, we may be required to pay a penalty tax. To avert this penalty tax, we may hold some of our assets through a taxable REIT subsidiary (“TRS”). While the TRS structure would allow the economic benefits of ownership to flow to us, a TRS is subject to tax on its income at the federal and state level. We have entered into agreements with certain contributors of our properties that contain limitations on our ability to dispose of certain properties in taxable transactions. The restrictions on taxable dispositions are effective for varying periods. Such agreements may require that we make a payment to the contributor in the event that we dispose of a covered property in a taxable sale during the restriction period.

Our ownership of TRSs is limited, and our transactions with TRSs will cause us to be subject to a 100% penalty tax on certain income or deductions if those transactions are not conducted on arm's-length terms. A REIT may own up to 100% of the stock of one or more TRSs. A TRS may hold assets and earn income that would not be qualifying assets or income if held or earned directly by a REIT. Both the subsidiary and the REIT must jointly elect to treat the subsidiary as a TRS. A corporation of which a TRS directly or indirectly owns more than 35% of the voting power or value of the stock will automatically be treated as a TRS. Overall, no more than 20% of the value of a REIT's assets may consist of stock or securities of one or more TRSs, and the TRS rules limit the deductibility of interest paid or accrued by a TRS to its parent REIT to assure that the TRS is subject to an appropriate level of corporate taxation. The rules also impose a 100% excise tax on certain transactions between a TRS and its parent REIT that are not conducted on an arm's-length basis.

Our TRS is subject to applicable federal, state, and local income tax on its taxable income, and its after-tax net income will be available for distribution to us but is not required to be distributed to us. We believe that the aggregate value of the stock and securities of our TRS is and will continue to be less than 20% of the value of our total assets (including our TRS stock and securities). We will continue to monitor the value of our investments in our TRS for the purpose of ensuring compliance with TRS ownership limitations. We will scrutinize all of our transactions with our TRS to

ensure that they are entered into on arm's-length terms to avoid incurring the 100% excise tax described above. There can be no assurance, however, that we will be able to comply with the 20% limitation discussed above or to avoid application of the 100% excise tax discussed above.

Our Board of Trustees may make changes to our major policies without approval of our shareholders. Our operating and financial policies, including policies relating to development and acquisition of real estate, financing, growth, operations, indebtedness, capitalization, and distributions are exclusively determined by our Board of Trustees. Our Board of Trustees may amend or revoke those policies, and other policies, without advance notice to, or the approval of, our shareholders.

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Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

We are organized as a REIT under Section 856-858 of the Code and are structured as an UPREIT. We conduct the business of owning, leasing, developing and acquiring real estate properties through our Operating Partnership. These real estate investments are managed by our own employees and by third-party professional real estate management companies on our behalf.

Certain Lending Requirements

In certain instances, in connection with the financing of investment properties, the lender may require, as a condition of the loan, that the properties be owned by a "single asset entity." Accordingly, we have organized a number of wholly owned subsidiary entities for the purpose of holding title in an entity that complies with such lending conditions. All financial statements of these subsidiaries are consolidated into our financial statements.

Management and Leasing of Our Real Estate Assets

We conduct our corporate operations from offices in Minot, North Dakota and Minneapolis and St. Cloud, Minnesota. We also have property management offices located in the states where we own properties. The day-to-day management of our properties is carried out by our own employees and in certain cases by third-party property management companies. In markets where the amount of rentable square footage we own does not justify self-management, when properties acquired have effective pre-existing property management in place, or when for other reasons particular properties are in our judgment not attractive candidates for self-management, we utilize third-party professional management companies for day-to-day management. However, all decisions relating to purchase, sale, insurance coverage, capital improvements, approval of leases, annual operating budgets and major renovations are made exclusively by our employees and implemented by the third-party management companies. Generally, our management contracts are for terms of one year or less and provide for compensation ranging from 2.5% to 5.0% of gross rent collections and, typically, we may terminate these contracts upon 60 days or less notice for cause or upon the property manager's failure to meet certain specified financial performance goals. We believe that the broker commissions paid by us conform to market and industry standards and are commercially reasonable.

Summary of Individual Properties Owned as of April 30, 2018

The following table presents information regarding our 99 apartment communities and other properties held for investment, as well as unimproved land as of April 30, 2018. We own the following interests in real estate either through our wholly-owned subsidiaries or by ownership of a controlling interest in an entity owning the real estate. We account for these interests on a consolidated basis. Additional information is included in Schedule III to our financial statements included in this Annual Report on Form 10-K.



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| Community Name and Location                                     | (in thousands)  |   |                                     |   |
|---|-----------------|---|-------------------------------------|---|
|   | Number of Homes | Investment (initial cost plus impairment) | Occupancy less as of April 30, 2018 |   |
| <b>MULTIFAMILY</b>  |                 |   |                                     |   |
| 71 France - Edina, MN <sup>(1) (2) (3) (4)</sup>                | 241             | \$ 66,545                                 | 90.5                                | % |
| Alps Park - Rapid City, SD <sup>(1)</sup>                       | 71              | 6,194                                     | 100.0                               | % |
| Arbors - S Sioux City, NE <sup>(1)</sup>                        | 192             | 9,350                                     | 97.4                                | % |
| Arcata - Golden Valley, MN <sup>(3) (4)</sup>                   | 165             | 33,222                                    | 98.2                                | % |
| Ashland - Grand Forks, ND <sup>(1)</sup>                        | 84              | 8,578                                     | 92.9                                | % |
| Avalon Cove - Rochester, MN <sup>(4)</sup>                      | 187             | 35,965                                    | 97.9                                | % |
| Boulder Court - Eagan, MN                                       | 115             | 9,568                                     | 98.3                                | % |
| Brookfield Village - Topeka, KS <sup>(1)</sup>                  | 160             | 9,092                                     | 94.4                                | % |
| Canyon Lake - Rapid City, SD <sup>(1)</sup>                     | 109             | 6,393                                     | 95.4                                | % |
| Cardinal Point - Grand Forks, ND <sup>(3) (4)</sup>             | 251             | 35,000                                    | 95.6                                | % |
| Cascade Shores - Rochester, MN <sup>(1) (4)</sup>               | 90              | 18,361                                    | 98.9                                | % |
| Castlerock - Billings, MT <sup>(1)</sup>                        | 166             | 7,959                                     | 87.3                                | % |
| Chateau I & II - Minot, ND <sup>(3) (4)</sup>                   | 104             | 21,239                                    | 98.1                                | % |
| Cimarron Hills - Omaha, NE <sup>(1)</sup>                       | 234             | 14,994                                    | 98.7                                | % |
| Colonial Villa - Burnsville, MN                                 | 239             | 23,006                                    | 98.3                                | % |
| Colony - Lincoln, NE <sup>(1)</sup>                             | 232             | 18,673                                    | 97.4                                | % |
| Commons and Landing at Southgate - Minot, ND <sup>(1) (2)</sup> | 341             | 54,593                                    | 97.1                                | % |
| Cottage West Twin Homes - Sioux Falls, SD <sup>(1)</sup>        | 50              | 5,327                                     | 100.0                               | % |
| Cottonwood - Bismarck, ND <sup>(1)</sup>                        | 268             | 23,839                                    | 95.5                                | % |
| Country Meadows - Billings, MT <sup>(1)</sup>                   | 133             | 10,036                                    | 96.2                                | % |
| Crestview - Bismarck, ND <sup>(1)</sup>                         | 152             | 6,731                                     | 96.7                                | % |
| Crown Colony - Topeka, KS <sup>(1)</sup>                        | 220             | 14,318                                    | 98.2                                | % |
| Crystal Bay - Rochester, MN <sup>(4)</sup>                      | 76              | 12,082                                    | 94.7                                | % |
| Cypress Court - St. Cloud, MN <sup>(1) (2)</sup>                | 196             | 20,684                                    | 95.4                                | % |
| Dakota Commons - Williston, ND                                  | 44              | 4,057                                     | 100.0                               | % |
| Deer Ridge - Jamestown, ND <sup>(1) (3) (4)</sup>               | 163             | 25,015                                    | 95.7                                | % |
| Dylan - Denver, CO <sup>(3)</sup>                               | 274             | 89,529                                    | 83.9                                | % |
| Evergreen - Isanti, MN <sup>(1)</sup>                           | 72              | 7,017                                     | 98.6                                | % |
| Forest Park - Grand Forks, ND <sup>(1)</sup>                    | 268             | 14,592                                    | 95.1                                | % |
| French Creek - Rochester, MN <sup>(4)</sup>                     | 40              | 5,082                                     | 100.0                               | % |
| Gables Townhomes - Sioux Falls, SD <sup>(1)</sup>               | 24              | 2,507                                     | 100.0                               | % |
| Gardens - Grand Forks, ND <sup>(4)</sup>                        | 74              | 9,329                                     | 93.2                                | % |
| Grand Gateway - St. Cloud, MN                                   | 116             | 9,760                                     | 94.0                                | % |
| GrandeVille at Cascade Lake - Rochester, MN <sup>(1) (4)</sup>  | 276             | 56,917                                    | 93.8                                | % |
| Greenfield - Omaha, NE  | 96              | 6,014                                     | 95.8                                | % |
| Heritage Manor - Rochester, MN <sup>(1)</sup>                   | 182             | 10,598                                    | 98.9                                | % |
| Homestead Garden - Rapid City, SD <sup>(1)</sup>                | 152             | 15,308                                    | 95.4                                | % |
| Indian Hills - Sioux City, IA                                   | 120             | 7,577                                     | 98.3                                | % |
| Kirkwood Manor - Bismarck, ND <sup>(1)</sup>                    | 108             | 5,006                                     | 92.6                                | % |
| Lakeside Village - Lincoln, NE <sup>(1)</sup>                   | 208             | 18,063                                    | 96.2                                | % |
| Landmark - Grand Forks, ND                                      | 90              | 2,873                                     | 97.8                                | % |
| Legacy - Grand Forks, ND <sup>(1)</sup>                         | 360             | 33,485                                    | 94.7                                | % |
| Legacy Heights - Bismarck, ND <sup>(3) (4)</sup>                | 119             | 15,333                                    | 96.6                                | % |



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| Community Name and Location                                    | (in thousands) |  |                                      |   |
|--|----------------|--|--------------------------------------|---|
|  | Homes          | Investment<br>Number of (initial cost plus<br>Apartment improvements less<br>impairment) | Occupancy<br>as of<br>April 30, 2018 |   |
| Mariposa - Topeka, KS <sup>(1)</sup>                           | 54             | \$ 6,443   | 96.3                                 | % |
| Meadows - Jamestown, ND  | 81             | 7,031  | 93.8                                 | % |
| Monticello Crossings - Monticello, MN <sup>(3) (4)</sup>       | 202            | 31,897   | 99.0                                 | % |
| Monticello Village - Monticello, MN                            | 60             | 5,299  | 98.3                                 | % |
| North Pointe - Bismarck, ND <sup>(1)</sup>                     | 73             | 5,550  | 100.0                                | % |
| Northridge - Bismarck, ND                                      | 68             | 8,582  | 95.6                                 | % |
| Oakmont Estates - Sioux Falls, SD                              | 79             | 6,621  | 94.9                                 | % |
| Oakwood Estates - Sioux Falls, SD                              | 160            | 8,068  | 96.3                                 | % |
| Olympic Village - Billings, MT <sup>(1)</sup>                  | 274            | 15,423   | 96.0                                 | % |
| Olympik Village - Rochester, MN <sup>(1)</sup>                 | 140            | 9,740  | 95.7                                 | % |
| Oxbo - St Paul, MN <sup>(3)</sup>                              | 191            | 57,461   | 73.3                                 | % |
| Oxbow Park - Sioux Falls, SD                                   | 120            | 7,263  | 95.0                                 | % |
| Park Meadows - Waite Park, MN <sup>(1)</sup>                   | 360            | 19,928   | 96.9                                 | % |
| Park Place - Plymouth, MN <sup>(3)</sup>                       | 500            | 93,357   | 91.4                                 | % |
| Pebble Springs - Bismarck, ND                                  | 16             | 983  | 93.8                                 | % |
| Pinehurst - Billings, MT                                       | 21             | 1,217  | 85.7                                 | % |
| Plaza - Minot, ND <sup>(1)</sup>                               | 71             | 16,515   | 100.0                                | % |
| Pointe West - Rapid City, SD <sup>(1)</sup>                    | 90             | 5,800  | 97.8                                 | % |
| Ponds at Heritage Place - Sartell, MN                          | 58             | 5,400  | 100.0                                | % |
| Prairie Winds - Sioux Falls, SD <sup>(1)</sup>                 | 48             | 2,692  | 91.7                                 | % |
| Quarry Ridge - Rochester, MN <sup>(1)</sup>                    | 313            | 34,336   | 96.5                                 | % |
| Red 20 - Minneapolis, MN <sup>(1) (4)</sup>                    | 130            | 26,057   | 95.4                                 | % |
| Regency Park Estates - St. Cloud, MN <sup>(1)</sup>            | 145            | 13,256   | 97.2                                 | % |
| Renaissance Heights - Williston, ND <sup>(1) (2) (3) (4)</sup> | 288            | 18,734   | 95.1                                 | % |
| Ridge Oaks - Sioux City, IA <sup>(1)</sup>                     | 132            | 7,172  | 99.2                                 | % |
| Rimrock West - Billings, MT <sup>(1)</sup>                     | 78             | 5,837  | 91.0                                 | % |
| River Ridge - Bismarck, ND                                     | 146            | 26,116   | 96.6                                 | % |
| Rocky Meadows - Billings, MT <sup>(1)</sup>                    | 98             | 7,913  | 94.9                                 | % |
| Rum River - Isanti, MN <sup>(1)</sup>                          | 72             | 6,057  | 100.0                                | % |
| Sherwood - Topeka, KS <sup>(1)</sup>                           | 300            | 20,862   | 96.3                                 | % |
| Sierra Vista - Sioux Falls, SD                                 | 44             | 2,919  | 93.2                                 | % |
| Silver Springs - Rapid City, SD <sup>(1)</sup>                 | 52             | 3,861  | 100.0                                | % |
| South Pointe - Minot, ND <sup>(1)</sup>                        | 196            | 15,306   | 96.9                                 | % |
| Southpoint - Grand Forks, ND                                   | 96             | 10,635   | 96.9                                 | % |
| Southwind - Grand Forks, ND <sup>(1)</sup>                     | 164            | 8,987  | 96.3                                 | % |
| Sunset Trail - Rochester, MN <sup>(1)</sup>                    | 146            | 16,389   | 96.6                                 | % |
| Thomasbrook - Lincoln, NE <sup>(1)</sup>                       | 264            | 16,045   | 98.5                                 | % |
| Valley Park - Grand Forks, ND <sup>(1)</sup>                   | 167            | 8,381  | 96.4                                 | % |
| Villa West - Topeka, KS <sup>(1)</sup>                         | 308            | 19,014   | 99.4                                 | % |
| Village Green - Rochester, MN                                  | 36             | 3,577  | 97.2                                 | % |
| Westend - Denver, CO <sup>(3)</sup>                            | 390            | 127,705  | 93.8                                 | % |
| West Stonehill - Waite Park, MN <sup>(1)</sup>                 | 312            | 18,699   | 98.1                                 | % |
| Westwood Park - Bismarck, ND <sup>(1)</sup>                    | 65             | 4,068  | 93.8                                 | % |
| Whispering Ridge - Omaha, NE <sup>(1)</sup>                    | 336            | 29,105   | 96.7                                 | % |

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|   |        |              |      |   |
|---|--------|--------------|------|---|
| Williston Garden - Williston, ND <sup>(1)</sup> (2) | 145    | 11,936       | 98.6 | % |
| Winchester - Rochester, MN                          | 115    | 8,886        | 94.8 | % |
| Woodridge - Rochester, MN <sup>(1)</sup>            | 110    | 9,487        | 94.5 | % |
| TOTAL MULTIFAMILY                                   | 14,176 | \$ 1,606,421 | 95.6 | % |

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| Property Name and Location  | (in thousands)              |   |                                |   |
|---|-----------------------------|---|--------------------------------|---|
|   | Net Rentable Square Footage | Investment (initial cost plus improvements less impairment) | Occupancy as of April 30, 2018 |   |
| <b>OTHER - MIXED USE</b>  |                             |   |                                |   |
| 71 France - Edina, MN <sup>(1)</sup>                                      | 20,955                      | \$ 6,653  | 100.0                          | % |
| Oxbo - St Paul, MN  | 11,477                      | 3,525   | 100.0                          | % |
| Plaza - Minot, ND <sup>(1)</sup>  | 50,610                      | 9,597   | 100.0                          | % |
| Red 20 - Minneapolis, MN <sup>(1)</sup>                                   | 10,508                      | 2,880   | 77.3                           | % |
| <b>TOTAL OTHER - MIXED USE</b>  | <b>93,550</b>               | <b>\$ 22,655</b>  |                                |   |
| <b>OTHER - COMMERCIAL</b>   |                             |   |                                |   |
| Bloomington 2000 W 94th Street - Bloomington, MN                          | 100,850                     | \$ 3,997  | 100.0                          | % |
| Dakota West Plaza - Minot, ND   | 16,921                      | 615   | 52.3                           | % |
| Fresenius - Duluth, MN  | 9,052                       | 1,572   | 100.0                          | % |
| Minot 1400 31st Ave - Minot, ND   | 48,960                      | 11,591  | 76.3                           | % |
| Minot 2505 16th Street SW - Minot, ND                                     | 15,000                      | 2,318   | —                              | % |
| Minot Arrowhead - Minot, ND   | 81,594                      | 8,902   | 92.4                           | % |
| Minot IPS - Minot, ND   | 27,698                      | 6,368   | 100.0                          | % |
| Minot Southgate Retail - Minot, ND  | 7,849                       | 1,925   | 39.1                           | % |
| Woodbury 1865 Woodlane - Woodbury, MN                                     | 69,600                      | 3,400   | 100.0                          | % |
| <b>TOTAL OTHER - COMMERCIAL</b>   | <b>377,524</b>              | <b>\$ 40,688</b>  |                                |   |
| <b>UNIMPROVED LAND</b>  |                             |   |                                |   |
| Badger Hills - Rochester, MN  |                             | \$ 1,404  |                                |   |
| Creekside Crossing - Bismarck, ND   |                             | 4,270   |                                |   |
| Grand Forks - Grand Forks, ND   |                             | 2,800   |                                |   |
| Minot 1525 24th Ave SW - Minot, ND  |                             | 506   |                                |   |
| Rapid City Unimproved- Rapid City, SD                                     |                             | 1,376   |                                |   |
| Renaissance Heights - Williston, ND <sup>(2)</sup>                        |                             | 750   |                                |   |
| Weston - Weston, WI   |                             | 370   |                                |   |
| <b>TOTAL UNIMPROVED LAND</b>  |                             | <b>\$ 11,476</b>  |                                |   |
| <b>TOTAL APARTMENT HOMES</b>  | <b>14,176</b>               |   |                                |   |
| <b>TOTAL SQUARE FOOTAGE - OTHER</b>                                       | <b>471,074</b>              |   |                                |   |
| <b>TOTAL REAL ESTATE INVESTMENTS, EXCLUDING MORTGAGE NOTES RECEIVABLE</b> |                             | <b>\$ 1,681,240</b>   |                                |   |

(1) Encumbered by mortgage debt.

(2) Owned by a joint venture entity and consolidated in our financial statements. We have an approximately 52.6% ownership in 71 France, 64.1% ownership in Commons & Landing at Southgate, 86.1% ownership in Cypress Court, 87.1% ownership in Renaissance Heights, 70% ownership in Renaissance Heights Unimproved and 69.6% ownership in Williston Garden.

(3) Non-same-store for the comparison of fiscal years 2018 and 2017. Refer to Item 7 for definition of non-same-store.

(4) Non-same-store for the comparison of fiscal years 2017 and 2016.

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## Properties by State

The following table presents, as of April 30, 2018, the total amount of property owned, net of accumulated depreciation, by state:

| State        | (in thousands) |          | Total       | % of Total |   |
|--------------|----------------|----------|-------------|------------|---|
|              | Multifamily    | Other    |             |            |   |
| Minnesota    | \$557,280      | \$20,660 | \$577,940   | 42.5       | % |
| North Dakota | 330,537        | 25,836   | 356,373     | 26.3       | % |
| Colorado     | 215,549        | —        | 215,549     | 15.9       | % |
| Nebraska     | 84,530         | —        | 84,530      | 6.2        | % |
| South Dakota | 49,290         | —        | 49,290      | 3.6        | % |
| Kansas       | 38,309         | —        | 38,309      | 2.8        | % |
| Montana      | 26,802         | —        | 26,802      | 2.0        | % |
| Iowa         | 9,647          | —        | 9,647       | 0.7        | % |
| Total        | \$1,311,944    | \$46,496 | \$1,358,440 | 100.0      | % |

## Item 3. Legal Proceedings

In the ordinary course of our operations, we become involved in litigation. At this time, we know of no material pending or threatened legal proceedings, or other proceedings contemplated by governmental authorities, that would have a material impact upon us.

## Item 4. Mine Safety Disclosures

Not Applicable

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## PART II

## Item 5. Market for Registrant's Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities

## Quarterly Share and Distribution Data

Our common shares of beneficial interest trade on the NYSE under the symbol "IRET." The following table shows the high and low sales prices for our common shares for the periods indicated, as reported by the NYSE, and the distributions per common share and limited partnership unit declared with respect to each period.

## Distributions Declared

| Quarter Ended | High | Low | (per share and unit) |
|---------------|------|-----|----------------------|
|---------------|------|-----|----------------------|

|                |        |        |         |
|----------------|--------|--------|---------|
| April 30, 2018 | \$5.58 | \$4.65 | \$ 0.07 |
|----------------|--------|--------|---------|

|                  |      |      |      |
|------------------|------|------|------|
| January 31, 2018 | 6.06 | 5.52 | 0.07 |
|------------------|------|------|------|

|                  |      |      |      |
|------------------|------|------|------|
| October 31, 2017 | 6.32 | 5.81 | 0.07 |
|------------------|------|------|------|

|               |      |      |      |
|---------------|------|------|------|
| July 31, 2017 | 6.72 | 5.64 | 0.07 |
|---------------|------|------|------|

## Distributions Declared

| Quarter Ended | High | Low | (per share and unit) |
|---------------|------|-----|----------------------|
|---------------|------|-----|----------------------|

|                |        |        |         |
|----------------|--------|--------|---------|
| April 30, 2017 | \$6.61 | \$5.67 | \$ 0.07 |
|----------------|--------|--------|---------|

|                  |      |      |      |
|------------------|------|------|------|
| January 31, 2017 | 7.20 | 5.81 | 0.13 |
|------------------|------|------|------|

|                  |      |      |      |
|------------------|------|------|------|
| October 31, 2016 | 6.67 | 5.67 | 0.13 |
|------------------|------|------|------|

|               |      |      |      |
|---------------|------|------|------|
| July 31, 2016 | 6.63 | 6.01 | 0.13 |
|---------------|------|------|------|

We pay quarterly distributions to our common shareholders and unitholders, at the discretion of our Board of Trustees, based on our funds from operations, financial condition and capital requirements, annual distribution requirements under the REIT provisions of the Code, and such other factors as our Board of Trustees deems relevant. Since July 1, 1971, we have paid quarterly cash distributions in the months of January, April, July and October.

## Shareholders

As of June 20, 2018, there were approximately 3,144 common shareholders of record.

## Unregistered Sales of Shares

Under the terms of IRET Properties' Agreement of Limited Partnership, limited partners have the right to require IRET Properties to redeem their limited partnership units for cash generally any time following the first anniversary of the date they acquired such units ("Exchange Right"). When a limited partner exercises the Exchange Right, we have the right, in our sole discretion, to redeem such units by either making a cash payment or exchanging the units for our common shares, on a one-for-one basis. The Exchange Right is subject to certain conditions and limitations, including that the limited partner may not exercise the Exchange Right more than two times during a calendar year and the limited partner may not exercise for less than 1,000 units, or, if such limited partner holds less than 1,000 units, for less than all of the units held by such limited partner. IRET Properties and some limited partners have contractually agreed to a holding period of greater than one year, a greater number of redemptions during a calendar year or other limitations to their Exchange Right.

During the fiscal years ended April 30, 2018, 2017, and 2016, respectively, we issued an aggregate of 28,924, 304,709, and 36,156 unregistered common shares to limited partners of IRET Properties upon exercise of their Exchange Rights for an equal number of units. All such issuances of our common shares were exempt from registration as private placements under Section 4(a)(2) of the Securities Act, including Regulation D promulgated thereunder. We have registered the resale of such common shares under the Securities Act.

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## Issuer Purchases of Equity Securities

| Period                 | Total<br>Number of<br>Shares and<br>Units<br>Purchased <sup>(1)</sup> | Average Price<br>Paid per<br>Share and<br>Unit | Maximum Dollar<br>Total Number of Shares Amount of Shares That  |   |
|------------------------|---|--|---|---|
|                        |   |  | Purchased as Part of<br>Publicly Announced<br>Plans or Programs | May Yet Be Purchased<br>Under the Plans or<br>Programs <sup>(2)</sup> |
| May 1 - 31, 2017       | 1,010,613   | \$ 5.81  | 601,425   | \$ 42,032,798   |
| June 1 - 30, 2017      | 225,844   | 5.95   | 47,178  | 41,758,230  |
| July 1 - 31, 2017      | 405,808   | 6.01   | 33,755  | 41,562,451  |
| August 1 - 31, 2017    | 23,622  | 6.23   | —   | 41,562,451  |
| September 1 - 30, 2017 | 332,249   | 5.82   | 316,249   | 39,722,239  |
| October 1 - 31, 2017   | 81,839  | 5.80   | 81,839  | 39,245,936  |
| November 1 - 30, 2017  | 165,972   | 5.83   | 151,604   | 38,363,643  |
| December 1 - 31, 2017  | 73,286  | 5.97   | —   | 38,363,643  |
| January 1 - 31, 2018   | 362,228   | 5.71   | —   | 38,363,643  |
| March 1 - 31, 2018     | 321,519   | 4.99   | 288,526   | 36,921,432  |
| April 1 - 30, 2018     | 265,788   | 5.21   | 259,333   | 35,563,523  |
| Total                  | 3,268,768   | \$ 5.71  | 1,779,909   |   |

(1) Includes 16,153 shares surrendered to us by employees in satisfaction of tax withholding obligations associated with the vesting of restricted shares.

(2) As disclosed in our Form 10-Q for the fiscal quarter ended January 31, 2018, represents amounts outstanding under our \$50,000,000 share repurchase program, which was authorized by our Board of Trustees on December 7, 2016 and reauthorized on December 5, 2017 and expires after a one year period.

## Comparative Stock Performance

The information contained in this Comparative Stock Performance section shall not be deemed to be “soliciting material” or “filed” or incorporated by reference into our future filings with the SEC, or subject to the liabilities of Section 18 of the Exchange Act, except to the extent that we specifically incorporate it by reference into a document filed under the Securities Act or the Exchange Act.

Set forth below is a graph that compares, for the five fiscal years commencing May 1, 2013, and ending April 30, 2018, the cumulative total returns for our common shares with the comparable cumulative total return of two indexes, the Standard & Poor’s 500 Index (“S&P 500”) and the FTSE NAREIT Equity REITs Index, the latter of which is an index prepared by the FTSE Group for the National Association of Real Estate Investment Trusts, which includes all tax-qualified equity REITs listed on the NYSE and the NASDAQ Market.

The performance graph assumes that at the close of trading on April 30, 2013, the last trading day of fiscal year 2013, \$100 was invested in our common shares and in each of the indexes. The comparison assumes the reinvestment of all distributions. Cumulative total shareholder returns for our common shares, the S&P 500, and the FTSE NAREIT Equity REITs Index are based on our fiscal year ending April 30.



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| Index                       | Period Ending |           |           |           |           |           |
|-----------------------------|---------------|-----------|-----------|-----------|-----------|-----------|
|                             | 4/30/2013     | 4/30/2014 | 4/30/2015 | 4/30/2016 | 4/30/2017 | 4/30/2018 |
| Investors Real Estate Trust | 100.00        | 95.31     | 83.51     | 75.48     | 79.70     | 75.53     |
| S&P 500 Index               | 100.00        | 120.44    | 136.07    | 137.71    | 162.39    | 183.93    |
| FTSE NAREIT Equity REITs    | 100.00        | 100.87    | 114.38    | 123.37    | 131.05    | 126.77    |

Source: S&P Global Market Intelligence

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## Item 6. Selected Financial Data

Set forth below is selected financial data on a historical basis for the five most recent fiscal years ended April 30. This information should be read in conjunction with the consolidated financial statements and notes appearing elsewhere in this Annual Report on Form 10-K.

|  | (in thousands, except per share data) |           |           |           |           |
|--|---------------------------------------|-----------|-----------|-----------|-----------|
|  | 2018                                  | 2017      | 2016      | 2015      | 2014      |
| <b>Consolidated Income Statement Data</b>  |                                       |           |           |           |           |
| Revenue  | \$169,745                             | \$160,104 | \$145,500 | \$141,294 | \$127,124 |
| Impairment of real estate investments in continuing and discontinued operations    | 18,065                                | 57,028    | 5,983     | 6,105     | 44,426    |
| Gain (loss) on debt extinguishment in continuing and discontinued operations       | (7,448)                               | (4,889)   | 29,230    | —         | —         |
| Gain on sale of discontinued operations and real estate and other investments      | 183,687                               | 74,847    | 33,422    | 6,093     | 6,948     |
| Income (loss) from continuing operations   | (37,194)                              | (46,228)  | 9,182     | 10,237    | (2,003)   |
| Income (loss) from discontinued operations   | 164,823                               | 76,753    | 67,420    | 18,447    | (14,937)  |
| Net income (loss)  | (127,629)                             | 30,525    | 76,602    | 28,684    | (16,940)  |
| Net (income) loss attributable to noncontrolling interests – Operating Partnership | (12,702)                              | (4,059)   | (7,032)   | (1,526)   | 4,676     |
| Net income (loss) attributable to Investors Real Estate Trust                      | (116,788)                             | 43,347    | 72,006    | 24,087    | (13,174)  |
| <b>Consolidated Balance Sheet Data</b>   |                                       |           |           |           |           |
| Total real estate investments  | 1,380,245                             | 1,121,385 | 1,204,654 | 1,057,356 | 910,077   |
| Total assets   | 1,426,658                             | 1,474,514 | 1,755,022 | 1,992,092 | 1,862,990 |
| Mortgages payable  | 509,919                               | 565,978   | 648,173   | 453,928   | 462,380   |
| Revolving lines of credit  | 124,000                               | 57,050    | 17,500    | 60,500    | 22,500    |
| Term loan  | 69,514                                | —         | —         | —         | —         |
| Total Investors Real Estate Trust shareholders' equity                             | 613,409                               | 560,937   | 618,758   | 652,110   | 592,184   |
| <b>Consolidated Per Common Share Data (basic and diluted)</b>                      |                                       |           |           |           |           |
| Loss from continuing operations – Investors Real Estate Trust                      | \$(0.36)                              | \$(0.30)  | \$—       | \$(0.04)  | \$(0.11)  |
| Income (loss) from discontinued operations – Investors Real Estate Trust           | \$1.23                                | \$0.56    | \$0.49    | \$0.15    | \$(0.12)  |
| Net income (loss)  | \$0.87                                | \$0.26    | \$0.49    | \$0.11    | \$(0.23)  |
| Distributions  | \$0.28                                | \$0.46    | \$0.52    | \$0.52    | \$0.52    |

| CALENDAR YEAR                      | 2017   | 2016   | 2015   | 2014   | 2013   |
|------------------------------------|--------|--------|--------|--------|--------|
| <b>Tax status of distributions</b> |        |        |        |        |        |
| Capital gain                       | 48.87% | 87.57% | 11.99% | 23.09% | 3.09%  |
| Ordinary income                    | 14.59% | 12.43% | 36.28% | 25.74% | 28.41% |
| Return of capital                  | 36.54% | —      | 51.73% | 51.17% | 68.50% |

For the fiscal year ended April 30, 2018, we recognized approximately \$42 million of net capital gain for federal income tax purposes. We designate the entire \$42 million of net capital gain as capital gain dividends.

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis should be read in conjunction with the consolidated financial statements and notes appearing elsewhere in this report. Historical results and trends which might appear in the consolidated financial statements should not be interpreted as being indicative of future operations.

We consider this and other sections of this Report to contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Exchange Act, with respect to our expectations for future periods. Forward-looking statements do not discuss historical fact, but instead include statements related to expectations, projections, intentions or other items related to the future.

Executive Summary

We own, manage, acquire, redevelop, and develop apartment communities. We primarily focus on investing in markets characterized by stable and growing economic conditions, strong employment, and an attractive quality of life that we believe, in combination, lead to higher demand for our apartment homes and retention of our residents. As of April 30, 2018, we owned interests in 90 apartment communities consisting of 14,176 apartment homes as detailed in Item 2 - Properties. Total cost of property owned was \$1.7 billion at April 30, 2018, compared to \$1.4 billion at April 30, 2017.

Renting apartment homes is our primary source of revenue, and our business objective is to provide great homes. We strive to maximize resident satisfaction and retention by investing in high-quality assets in desirable locations and creating vibrant apartment communities through service-oriented operations. We believe that delivering superior resident experiences will drive consistent profitability for our shareholders. We have paid quarterly distributions continuously since our first distribution in 1971.

Fiscal 2018 Significant Events and Transactions

During fiscal year 2018, we successfully completed the following significant transactions, including acquisition, disposition and financing transactions, and experienced the following significant events:

Substantially completed our transformation into a multifamily company by selling 50 commercial and other non-core multifamily properties for an aggregate sales price of \$515.1 million. We used a portion of the proceeds from these sales to purchase four apartment communities with 1,355 homes for \$373.1 million.

Issued 4,118,460 shares of 6.625% Series C preferred shares for gross proceeds of \$103.0 million and redeemed all 4,600,000 shares of 7.95% Series B preferred shares for an aggregate cost, including accrued dividends, of \$115.8 million, which will result in a reduction of \$2.3 million in annual preferred dividend payments.

Increased the commitments to our unsecured line of credit by \$50 million to a current total of \$300 million. Closed a \$70 million unsecured term loan and executed a swap agreement to synthetically fix the interest rate for the full duration of the loan. Closed a \$6.0 million operating line of credit.

Established a new senior management team to complete the portfolio transition and continue the operational improvements and added two new trustees to enhance corporate governance.

Implementation of our Strategic Plan; Acquisitions and Dispositions:

In June 2016, we announced our intention to transition to a multifamily REIT and sell our remaining commercial properties. In furtherance of this strategic plan, during fiscal year 2018, we sold 28 medical office properties, our remaining 2 senior housing properties, 5 other commercial properties and 1 parcel of unimproved land for a total sales price of approximately \$496.2 million, compared to dispositions of \$283.4 million for fiscal year 2017. During fiscal year 2018, we added \$373.1 million of new apartment communities to our portfolio through property acquisitions.

Share Repurchase Program:

As described in further detail under "Financial Condition" below, on December 7, 2016, our Board of Trustees authorized a share repurchase program to repurchase up to \$50 million of our common shares and/or Series B preferred shares over a one-year period. On December 5, 2017, our Board of Trustees reauthorized this share repurchase program for common shares for an additional one-year period. During the fiscal year ended April 30, 2018, we repurchased approximately 1.8 million common shares for an aggregate cost of \$9.9 million, including commissions, at an average price per share of \$5.56, excluding



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commissions. As of April 30, 2018, \$35.6 million remained available under the \$50 million authorized share repurchase program.

Redemption of Series B Preferred Shares:

On September 20, 2017, our Board of Trustees authorized the redemption of all of the Series B preferred shares. On September 29, 2017, we delivered notice to holders of the Series B preferred shares that we intended to redeem all 4,600,000 Series B preferred shares at a redemption price equal to \$25.00 per share plus any accrued but unpaid distributions per share up to and including the redemption date of October 30, 2017. On October 30, 2017, we completed the redemption of the Series B preferred shares for an aggregate redemption price of \$115.0 million, and such shares are no longer deemed outstanding as of such date and were delisted from trading on the NYSE.

Credit Agreement:

In January 2017, our Operating Partnership entered into a credit agreement for a new unsecured, variable interest rate line of credit with BMO Harris Bank N.A. as lead agent bank and book runner (the "Line of Credit"). The Line of Credit has a termination date of January 31, 2021, which may be extended for an additional one-year period subject to the satisfaction of certain conditions. In fiscal year 2018, we amended the Line of Credit to increase commitments from \$250.0 million to \$300.0 million and also entered into a \$70.0 million unsecured term loan and a \$6.0 million operating line of credit. The maximum borrowing capacity under the Line of Credit is based on the value of an unencumbered asset pool ("UAP") that secures both the Line of Credit and the unsecured term loan. The UAP may not consist of less than 15 properties that meet certain eligibility criteria, and eligible properties may be added and removed from the UAP, subject to the satisfaction of certain conditions. The UAP provided for a borrowing capacity under the Line of Credit of approximately \$300.0 million as of April 30, 2018, offering additional borrowing availability of \$176.0 million beyond the \$124.0 million drawn at an interest rate of 3.66% as of April 30, 2018. At April 30, 2017, the line of credit borrowing capacity was \$206.0 million based on the UAP, of which \$57.1 million was drawn on the line.

During the quarter ended January 31, 2018, we entered into a \$70.0 million unsecured term loan that matures on January 31, 2023. In addition, we increased the credit capacity of our revolving Line of Credit to \$300.0 million, and maintain a \$200.0 million accordion option that can be accessed by increasing our lending commitments under the current agreement.

The Line of Credit is guaranteed, jointly and severally, by us, the general partner of our Operating Partnership, and each subsidiary that owns a UAP property. Borrowings under the Line of Credit accrue interest at a rate based either on a margin percentage over the lender's base rate, ranging from 0.6% to 1.25%, or on a margin percentage over LIBOR, ranging from 1.6% to 2.25%, based on our total leverage ratio. The line also requires the payment of customary fees and contains covenants, representations, warranties, and events of default customary for credit facilities of this type, including a covenant on a fiscal quarterly-end basis that the consolidated leverage ratio will not be greater than 0.60 to 1.00. As of April 30, 2018, participants included the following financial institutions: BMO Harris Bank N.A., KeyBank, National Association, PNC Bank, National Association, Royal Bank of Canada, U.S. Bank National Association, Associated Bank, National Association, Bank of North Dakota and Raymond James Bank, N.A.; with KeyBank, National Association and PNC Bank, National Association as syndication agents and BMO Capital Markets Corp., Keybank Capital Markets Inc. and PNC Capital Markets, LLC as joint lead arrangers and joint book runners.

Operating LOC:

On March 20, 2018, we closed on a \$6.0 million operating line of credit with Wells Fargo Bank. This operating line of credit will be utilized to enhance treasury management activities and more effectively manage cash balances. The operating line has a one-year term, with pricing based on a market spread plus the one-month LIBOR index rate. As of April 30, 2018, we had \$6.0 million available under this line.

Changes in our Board of Trustees:

On January 8, 2018, trustee John D. Stewart notified our Board of Trustees that he was resigning, effective immediately, from the Board and all committees of the Board. On February 15, 2018, the Board of Trustees appointed Emily Nagle Green and Mary J. Twinem as trustees, whose terms of office expire at the 2018 Annual Meeting of Shareholders and until their successors are elected and qualified. The Board determined that both Ms. Green and Ms. Twinem qualify as "independent directors" in accordance with the listing standards of the New York Stock Exchange.



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## Market Conditions and Outlook

The demand for investment and institutional quality real estate in our markets is strong. Investors have abundant equity and access to debt to facilitate acquisitions and developments, although anecdotally we sense that development capital, particularly debt capital, is moderating due, in part, to heightened supply concerns in certain areas. Prices and sale volumes remain strong. Despite recent increases in Treasury rates, capitalization rates have remained at pre-Treasury rate increase levels and, in some cases, have continued experiencing compression. Multifamily fundamentals remain strong in our markets.

We experienced generally stable trends across most of our apartment investments during the quarter ended April 30, 2018. Our ability to maintain occupancy levels and raise rents remains dependent on continued healthy employment and wage growth. We continue to observe considerable apartment community development activity in our markets, and as this new construction is completed, we will experience increased competition for residents. Many existing apartment owners of modestly older properties are making significant upgrades to their apartment homes and raising rents.

## RESULTS OF OPERATIONS

## Consolidated Results of Operations

The discussion that follows is based on our consolidated results of operations for the fiscal years ended April 30, 2018, 2017 and 2016.

|  | (in thousands)               |           |           | 2018 vs. 2017 |          | 2017 vs. 2016 |          |  |   |
|--|------------------------------|-----------|-----------|---------------|----------|---------------|----------|--|---|
|  | Year Ended April 30,<br>2018 | 2017      | 2016      | \$ Change     | % Change | \$ Change     | % Change |  |   |
| REVENUE  | \$169,745                    | \$160,104 | \$145,500 | \$9,641       | 6.0      | % \$14,604    | 10.0     |  | % |
| Property operating expenses, excluding real estate taxes   | 54,292                       | 47,587    | 43,741    | 6,705         | 14.1     | % 3,846       | 8.8      |  | % |
| Real estate taxes  | 18,742                       | 16,739    | 14,407    | 2,003         | 12.0     | % 2,332       | 16.2     |  | % |
| Property management expense  | 5,526                        | 5,046     | 3,714     | 480           | 9.5      | % 1,332       | 35.9     |  | % |
| Casualty loss  | 500                          | 414       | 238       | 86            | 20.8     | % 176         | 73.9     |  | % |
| Depreciation and amortization  | 82,070                       | 44,253    | 39,273    | 37,817        | 85.5     | % 4,980       | 12.7     |  | % |
| Impairment of real estate investments  | 18,065                       | 57,028    | 5,543     | (38,963)      | (68.3)   | % 51,485      | 928.8    |  | % |
| General and administrative expenses  | 14,203                       | 15,871    | 13,498    | (1,668)       | (10.5)   | % 2,373       | 17.6     |  | % |
| Acquisition and investment related costs   | 51                           | 3,276     | 830       | (3,225)       | (98.4)   | % 2,446       | 294.7    |  | % |
| TOTAL EXPENSES   | 193,449                      | 190,214   | 121,244   | 3,235         | 1.7      | % 68,970      | 56.9     |  | % |
| Operating income (loss)  | (23,704)                     | (30,110)  | 24,256    | 6,406         | (21.3)   | % (54,366)    | (224.1)  |  | % |
| Interest expense   | (34,178)                     | (34,314)  | (28,417)  | 136           | (0.4)    | % (5,897)     | 20.8     |  | % |
| Loss on extinguishment of debt   | (940)                        | (1,651)   | (106)     | 711           | (43.1)   | % (1,545)     | 1,457.5  |  | % |
| Interest income  | 1,197                        | 366       | 78        | 831           | 227.0    | % 288         | 369.2    |  | % |
| Other income   | 311                          | 780       | 307       | (469)         | (60.1)   | % 473         | 154.1    |  | % |
| Income (loss) before gain on sale of real estate and other investments and income from discontinued operations | (57,314)                     | (64,929)  | (3,882)   | 7,615         | (11.7)   | % (61,047)    | 1,572.6  |  | % |
| Gain on sale of real estate and other investments  | 20,120                       | 18,701    | 9,640     | 1,419         | 7.6      | % 9,061       | 94.0     |  | % |
| Gain on bargain purchase   | —                            | —         | 3,424     | —             | —        | (3,424)       | (100.0)  |  | % |
| Income (loss) from continuing operations   | (37,194)                     | (46,228)  | 9,182     | 9,034         | (19.5)   | % (55,410)    | (603.5)  |  | % |
| Income from discontinued operations  | 164,823                      | 76,753    | 67,420    | 88,070        | 114.7    | % 9,333       | 13.8     |  | % |
| NET INCOME   | 127,629                      | 30,525    | 76,602    | 97,104        | 318.1    | % (46,077)    | (60.2)   |  | % |
| Net (income) loss attributable to noncontrolling interests – Operating Partnership                             | (12,702)                     | (4,059)   | (7,032)   | (8,643)       | 212.9    | % 2,973       | (42.3)   |  | % |
|  | 1,861                        | 16,881    | 2,436     | (15,020)      | (89.0)   | % 14,445      | 593.0    |  | % |

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Net (income) loss attributable to  
noncontrolling interests – consolidated real  
estate entities

|  |                  |                 |                 |                 |                |                   |                 |
|--|------------------|-----------------|-----------------|-----------------|----------------|-------------------|-----------------|
| Net income attributable to Investors Real Estate Trust | 116,788          | 43,347          | 72,006          | 73,441          | 169.4 %        | (28,659 )         | (39.8 )%        |
| Dividends to preferred shareholders                    | (8,569 )         | (10,546 )       | (11,514 )       | 1,977           | (18.7 )%       | 968               | (8.4 )%         |
| Redemption of Preferred Shares                         | (3,657 )         | (1,435 )        | —               | (2,222 )        | 154.8 %        | (1,435 )          | —               |
| <b>NET INCOME AVAILABLE TO COMMON SHAREHOLDERS</b>     | <b>\$104,562</b> | <b>\$31,366</b> | <b>\$60,492</b> | <b>\$73,196</b> | <b>233.4 %</b> | <b>\$(29,126)</b> | <b>(48.1 )%</b> |

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Revenue. Revenue increased by 6.0% to \$169.7 million in fiscal year 2018, compared to \$160.1 million in fiscal year 2017, primarily due to apartment communities acquired during fiscal year 2018 and improved performance at same-store apartment communities. Revenue increased by 10.0% to \$160.1 million in fiscal year 2017, compared to \$145.5 million in fiscal year 2016, primarily due to apartment communities acquired and developments placed into service during fiscal year 2016.

For fiscal year 2018, the increase in revenue of \$9.6 million resulted from:

|   | (in thousands) |
|---|----------------|
| Increase in revenue from non-same-store apartment communities | \$ 14,876      |
| Increase in revenue from same-store apartment communities     | 5,164          |
| Decrease in revenue from other properties and dispositions    | (10,399 )      |
| Net increase in revenue                                       | \$ 9,641       |

For fiscal year 2017, the increase in revenue of \$14.6 million resulted from:

|   | (in thousands) |
|---|----------------|
| Increase in revenue from non-same-store apartment communities | \$ 14,896      |
| Decrease in revenue from same-store apartment communities     | (1,731 )       |
| Increase in revenue from other properties and dispositions    | 1,439          |
| Net increase in revenue                                       | \$ 14,604      |

Property operating expenses, excluding real estate taxes. Property operating expenses, excluding real estate taxes, increased by 14.1% to \$54.3 million in fiscal year 2018 compared to \$47.6 million in fiscal year 2017. \$3.7 million of the increase was attributable to non-same-store apartment communities, while expenses at same-store communities increased by \$4.0 million and were offset by a \$1.0 million decrease from other properties and dispositions.

Property operating expenses, excluding real estate taxes, increased by 8.8% to \$47.6 million in fiscal year 2017 compared to \$43.7 million in fiscal year 2016. \$3.0 million of the increase was attributable to non-same-store apartment communities and other properties, while expenses at same-store communities increased by \$803,000.

Real Estate Taxes. Real estate taxes increased by 12.0% to \$18.7 million in fiscal year 2018 compared to \$16.7 million in fiscal year 2017. An increase of \$2.0 million was attributable to non-same-store apartment communities and same-store communities saw an increase of \$888,000 compared to the prior fiscal year, which was offset by a decrease of \$870,000 from other properties and dispositions.

Real estate taxes increased by 16.2% to \$16.7 million in fiscal year 2017 compared to \$14.4 million in fiscal year 2016. An increase of \$2.1 million was attributable to the non-same-store apartment communities, while the remaining increase of \$219,000 was attributable to same-store apartment communities, other properties, and dispositions.

Property management expense. Property management expense increased by 9.5% to \$5.5 million in fiscal year 2018 compared to \$5.0 million in fiscal year 2017, primarily due to technology initiatives and an increase in the average apartment homes under management.

Property management expense increased by 35.9% to \$5.0 million in fiscal year 2017 compared to \$3.7 million in fiscal year 2016, primarily due to the reallocation of fixed costs after the sale of our office and retail portfolios.

Depreciation and Amortization. Depreciation and amortization increased by 85.5% to \$82.1 million in fiscal year 2018, compared to \$44.3 million in fiscal year 2017. This increase was primarily due to a change in the estimated useful lives of our real estate assets. See Note 2 to our consolidated financial statements contained in this Annual Report on Form 10-K for additional information.

Depreciation and amortization increased by 12.7% to \$44.3 million in fiscal year 2017, compared to \$39.3 million in fiscal year 2016. This increase was primarily attributable to the addition of depreciable assets from acquisitions, development projects placed in service, and capital expenditures during fiscal years 2017 and 2016.



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**Impairment of Real Estate Investments.** During fiscal years 2018, 2017, and 2016, we incurred impairment losses of \$18.1 million, \$57.0 million, and \$5.5 million, respectively, in continuing operations. See Note 2 to our consolidated financial statements contained in this Annual Report on Form 10-K for additional information.

**General and Administrative Expenses.** General and administrative expenses decreased by 10.5% to \$14.2 million in fiscal year 2018, compared to \$15.9 million in fiscal year 2017, primarily due to decreased salary and benefit costs of \$2.3 million related to a reduction in full time equivalent employees, but partially offset by transition costs of \$951,000.

General and administrative expenses increased by 17.6% to \$15.9 million in fiscal year 2017, compared to \$13.5 million in fiscal year 2016. This increase was primarily a result of transition and severance costs, an increase in health insurance costs, and increased legal and consulting expenses.

**Acquisition and Investment Related Costs.** Acquisition and investment related costs in fiscal years 2018, 2017, and 2016 were \$51,000, \$3.3 million, and \$830,000, respectively, and varied based on the write-off of development pursuit costs in each year.

**Interest Expense.** Interest expense decreased 0.4% to \$34.2 million in fiscal year 2018, compared to \$34.3 million in fiscal year 2017, due to a decrease in the average balance of our outstanding indebtedness and changes in variable rates.

Interest expense increased 20.8% to \$34.3 million in fiscal year 2017, compared to \$28.4 million in fiscal year 2016, primarily due to an increase in the average balance of our outstanding indebtedness.

**Loss on Extinguishment of Debt.** We recorded loss on extinguishment of debt in fiscal years 2018, 2017 and 2016 of \$940,000, \$1.7 million, and \$106,000, respectively, due to prepayment penalties associated with the disposal of assets and the write-off of unamortized loan costs.

**Interest Income and Other Income.** We recorded interest income in fiscal years 2018, 2017, and 2016 of \$1.2 million, \$366,000 and \$78,000, respectively. The increase from fiscal year 2017 to fiscal year 2018 was due to seller-financing associated with a disposition and funding a note receivable for a third-party apartment development. The increase in interest income from fiscal year 2016 to fiscal year 2017 was primarily due to interest earned on notes receivable from our joint venture partners.

**Gain on Sale of Real Estate and Other Investments.** In fiscal years 2018, 2017, and 2016, we recorded gains on sale of real estate and other investments in continuing operations of \$20.1 million, \$18.7 million and \$9.6 million, respectively.

**Income from Discontinued Operations.** Income from discontinued operations in fiscal years 2018, 2017, and 2016 was \$164.8 million, \$76.8 million and \$67.4 million, respectively. We realized a gain on sale of discontinued operations for fiscal years 2018, 2017, and 2016 of \$163.6 million, \$56.1 million and \$23.8 million, respectively. See Note 10 of the Notes to Consolidated Financial Statements in this report for further information on discontinued operations.

**Net Operating Income**

Net Operating Income ("NOI") is a non-GAAP measure which we define as total real estate revenues less property operating expenses and real estate tax expense combined (referred to as "Real estate expense"). We believe that NOI is an important supplemental measure of operating performance for a REIT's operating real estate because it provides a measure of operations that is unaffected by depreciation, amortization, financing, and general and administrative 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.

Throughout this Annual Report on Form 10-K, we have provided certain information on a same-store and non-same-store properties basis. Same-store properties are properties owned or in service for the entirety of the periods being compared, and, in the case of development or re-development properties, which have achieved a target level of occupancy of 90%. Effective for the comparison of fiscal years 2018 and 2017, sold properties and properties designated as held for sale are moved to Other. For the comparison of fiscal years 2017 and 2016, sold properties and properties designated as held for sale were moved to the non-same-store category.

This comparison allows us to evaluate the performance of existing properties and their contribution to net income. Management believes that measuring performance on a same-store property basis is useful to investors because it enables evaluation of how our 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 making prudent capital improvements. The discussion below focuses on the main factors affecting real estate revenue and real estate expenses

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from same-store properties, since changes from one fiscal year to another in real estate revenue and expenses from non-same-store properties are due to the addition of those properties to our real estate portfolio, and accordingly provide less useful information for evaluating the ongoing operational performance of our real estate portfolio. For the comparison of fiscal years ended April 30, 2018 and 2017, 12 apartment communities were non-same-store, of which seven were in-service development communities. For the comparison of fiscal years 2017 and 2016, 37 apartment communities were non-same-store, of which eight were in-service development communities and 22 were held for sale or sold. See Item 2 - Properties for the held for investment communities classified as non-same-store. The following table of selected operating data reconciles NOI to net income and provides the basis for our discussion of NOI in fiscal years 2018, 2017, and 2016.

|  | Year Ended April 30, |           | 2018 vs 2017 |          | 2017        | 2016      | 2017 vs 2016 |          |    |
|--|----------------------|-----------|--------------|----------|-------------|-----------|--------------|----------|----|
|  | 2018                 | 2017      | \$ Change    | % Change |             |           | \$ Change    | % Change |    |
| Revenue  |                      |           |              |          |             |           |              |          |    |
| Same-store   | \$126,415            | \$121,252 | \$5,163      | 4.3      | % \$108,347 | \$110,078 | \$(1,731)    | (1.6)    | )% |
| Non-same-store   | 33,568               | 20,962    | 12,606       | 60.1     | % 33,867    | 18,971    | 14,896       | 78.5     | %  |
| Other properties and dispositions  | 9,762                | 17,890    | (8,128)      | (45.4)   | )% 17,890   | 16,451    | 1,439        | 8.7      | %  |
| Total  | 169,745              | 160,104   | 9,641        | 6.0      | % 160,104   | 145,500   | 14,604       | 10.0     | %  |
| Real estate expenses   |                      |           |              |          |             |           |              |          |    |
| Same-store   | 56,773               | 51,862    | 4,911        | 9.5      | % 46,988    | 46,099    | 889          | 1.9      | %  |
| Non-same-store   | 13,687               | 9,033     | 4,654        | 51.5     | % 13,907    | 8,663     | 5,244        | 60.5     | %  |
| Other properties and dispositions  | 2,574                | 3,431     | (857)        | (25.0)   | )% 3,431    | 3,386     | 45           | 1.3      | %  |
| Total  | 73,034               | 64,326    | 8,708        | 13.5     | % 64,326    | 58,148    | 6,178        | 10.6     | %  |
| Net operating income   |                      |           |              |          |             |           |              |          |    |
| Same-store   | 69,642               | 69,390    | 252          | 0.4      | % 61,359    | 63,979    | (2,620)      | (4.1)    | )% |
| Non-same-store   | 19,881               | 11,929    | 7,952        | 66.7     | % 19,960    | 10,308    | 9,652        | 93.6     | %  |
| Other properties and dispositions  | 7,188                | 14,459    | (7,271)      | (50.3)   | )% 14,459   | 13,065    | 1,394        | 10.7     | %  |
| Total  | \$96,711             | \$95,778  | \$933        | 1.0      | % \$95,778  | \$87,352  | \$8,426      | 9.6      | %  |
| Property management  | (5,526)              | (5,046)   | )            |          | (5,046)     | (3,714)   | )            |          |    |
| Casualty loss  | (500)                | (414)     | )            |          | (414)       | (238)     | )            |          |    |
| Depreciation/amortization  | (82,070)             | (44,253)  | )            |          | (44,253)    | (39,273)  | )            |          |    |
| Impairment of real estate investments  | (18,065)             | (57,028)  | )            |          | (57,028)    | (5,543)   | )            |          |    |
| General and administrative expenses  | (14,203)             | (15,871)  | )            |          | (15,871)    | (13,498)  | )            |          |    |
| Acquisition and investment related costs   | (51)                 | (3,276)   | )            |          | (3,276)     | (830)     | )            |          |    |
| Interest expense   | (34,178)             | (34,314)  | )            |          | (34,314)    | (28,417)  | )            |          |    |
| Loss on debt extinguishment  | (940)                | (1,651)   | )            |          | (1,651)     | (106)     | )            |          |    |
| Interest and other income  | 1,508                | 1,146     |              |          | 1,146       | 385       |              |          |    |
| Income (loss) before gain on sale of real estate and other investments and income from discontinued operations | (57,314)             | (64,929)  | )            |          | (64,929)    | (3,882)   | )            |          |    |
| Gain on sale of real estate and other investments  | 20,120               | 18,701    |              |          | 18,701      | 9,640     |              |          |    |
| Gain on bargain purchase   | —                    | —         |              |          | —           | 3,424     |              |          |    |

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|  |           |           |           |          |
|--|-----------|-----------|-----------|----------|
| Income (loss) from continuing operations | (37,194 ) | (46,228 ) | (46,228 ) | 9,182    |
| Income from discontinued operations      | 164,823   | 76,753    | 76,753    | 67,420   |
| Net income                               | \$127,629 | \$30,525  | \$30,525  | \$76,602 |

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|                           | Years Ended April 30 |        |        |        |   |
|---------------------------|----------------------|--------|--------|--------|---|
|                           | 2018                 | 2017   | 2017   | 2016   |   |
| Occupancy <sup>(1)</sup>  |                      |        |        |        |   |
| Same-store                | 96.5                 | %93.8  | % 94.2 | %94.9  | % |
| Non-same-store            | 92.1                 | %88.5  | % 88.8 | %73.7  | % |
| Total                     | 95.6                 | %93.1  | % 93.1 | %90.8  | % |
| Number of Apartment Homes | 2018                 | 2017   | 2017   | 2016   |   |
| Same-store                | 11,320               | 11,320 | 10,511 | 10,511 |   |
| Non-same-store            | 2,856                | 1,892  | 2,701  | 2,463  |   |
| Total                     | 14,176               | 13,212 | 13,212 | 12,974 |   |

(1) Occupancy represents the actual number of apartment homes leased divided by the total number of apartment homes at the end of the period.

Revenue from same-store properties increased by 4.3% or \$5.2 million in the twelve months ended April 30, 2018, compared to the same period in the prior fiscal year. Approximately 2.4% of the increase was due to higher occupancy and 1.9% of the increase was attributable to growth in average rental revenue.

Real estate expenses at same-store properties increased by 9.5% or \$4.9 million in the twelve months ended April 30, 2018, compared to the same period in the prior fiscal year. The increase was primarily attributable to the previously disclosed change in our capitalization policies, additional costs related to increasing occupancy, and an increase in real estate tax levy rates in select markets.

Real estate revenue from same-store properties decreased by 1.6% or \$1.7 million in the twelve months ended April 30, 2017, compared to the same period in the prior fiscal year. A decrease of \$2.0 million was attributable to increased vacancy, primarily in our energy impacted markets of Williston, North Dakota and Minot, North Dakota. This decrease in revenue was offset by an increase of \$1.1 million that was the result of a ratio utility billings system implemented in the current year to recapture tenant utility expenses.

Real estate expenses at same-store properties increased by 1.9% or \$889,000 in the twelve months ended April 30, 2017, compared to the same period in the prior fiscal year. The primary factors were increased administrative and maintenance expenses of \$810,000 and \$911,000, respectively, due to increased labor costs and snow removal. These increases were offset by a decrease in insurance expenses of \$267,000, due to a decrease in insurance premiums as well as a decrease in deductibles paid on insurance claims.

Acquisitions

We added \$373.1 million in new apartment communities to our portfolio through acquisitions during fiscal year 2018, compared to no acquisitions in fiscal year 2017. The fiscal year 2018 acquisitions are detailed below.

Fiscal 2018 (May 1, 2017 to April 30, 2018)

| Acquisitions                                   | Date Acquired      | (in thousands)         |                            |                 |                     |                   |
|--|--------------------|------------------------|----------------------------|-----------------|---------------------|-------------------|
|  |                    | Total Acquisition Cost | Form of Consideration Cash | Investment Land | Allocation Building | Intangible Assets |
| Multifamily                                    |                    |                        |                            |                 |                     |                   |
| 191 homes - Oxbo - St. Paul, MN <sup>(1)</sup> | May 26, 2017       | \$61,500               | \$ 61,500                  | \$5,809         | \$54,910            | \$ 781            |
| 500 homes - Park Place - Plymouth, MN          | September 13, 2017 | 92,250                 | 92,250                     | 10,609          | 80,711              | 930               |
| 274 homes - Dylan - Denver, CO                 | November 28, 2017  | 90,600                 | 90,600                     | 12,155          | 77,249              | 1,196             |
| 390 homes - Westend - Denver, CO               | March 28, 2018     | 128,700                | 128,700                    | 25,525          | 102,101             | 1,074             |
| Total Acquisitions                             |                    | \$373,050              | \$ 373,050                 | \$54,098        | \$314,971           | \$ 3,981          |

(1) Property includes 11,477 square feet of retail space.





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## Development Projects Placed in Service

We placed no development projects in service during fiscal year 2018, compared to \$102.9 million in fiscal year 2017. The fiscal year 2017 development projects placed in service are detailed below.

Fiscal 2017 (May 1, 2016 to April 30, 2017)

| Development Projects Placed in Service                           | Date Placed<br>in Service | (in thousands) |          |                     |
|--|---------------------------|----------------|----------|---------------------|
|  |                           | Land           | Building | Development<br>Cost |
| Multifamily  |                           |                |          |                     |
| 241 homes - 71 France - Edina, MN <sup>(1)</sup>                 | May 1, 2016               | \$4,721        | \$67,641 | \$ 72,362           |
| 202 homes - Monticello Crossings - Monticello, MN <sup>(2)</sup> | March 1, 2017             | \$1,734        | \$28,782 | \$ 30,516           |
| Total Development Projects Placed in Service                     |                           | \$6,455        | \$96,423 | \$ 102,878          |

Costs paid prior to fiscal year 2017 totaled \$70.9 million. Additional costs incurred in fiscal year 2017 totaled \$1.5 million, for a total project cost at April 30, 2017 of \$72.4 million. The project is owned by a joint venture entity in which we currently have an approximately 52.6% interest. The joint venture is consolidated in our financial statements.

(1) Costs paid prior to fiscal year 2017 totaled \$15.5 million. Additional costs incurred in fiscal year 2017 totaled \$15.0 million, for a total project cost at April 30, 2017 of \$30.5 million.

## Dispositions

During fiscal year 2018 we sold 15 apartment communities, 2 senior housing properties, 28 medical office properties, 5 commercial properties, and 2 parcels of unimproved land for a total sales price of \$515.1 million, compared to dispositions totaling \$286.9 million in fiscal year 2017. The fiscal year 2018 and 2017 dispositions are detailed below.

Fiscal 2018 (May 1, 2017 to April 30, 2018)

| Dispositions   | Date<br>Disposed     | (in thousands) |                              |             |
|--|----------------------|----------------|------------------------------|-------------|
|  |                      | Sales Price    | Book Value<br>and Sales Cost | Gain/(Loss) |
| Multifamily  |                      |                |                              |             |
| 327 homes - 13 apartment communities - Minot, ND <sup>(1)(2)</sup> | August 22, 2017      | \$12,263       | \$ 11,562                    | \$ 701      |
| 48 homes - Crown - Rochester, MN                                   | December 1,<br>2017  | 5,700          | 3,318                        | 2,382       |
| 16 homes - Northern Valley - Rochester, MN                         | December 1,<br>2017  | 950            | 690                          | 260         |
|  |                      | \$18,913       | \$ 15,570                    | \$ 3,343    |
| Other  |                      |                |                              |             |
| 4,998 sq ft Minot Southgate Wells Fargo Bank - Minot, ND           | May 15, 2017         | \$3,440        | \$ 3,332                     | \$ 108      |
| 90,260 sq ft Lexington Commerce Center - Eagan, MN                 | August 22, 2017      | 9,000          | 3,963                        | 5,037       |
| 17,640 sq ft Duckwood Medical - Eagan, MN                          | August 24, 2017      | 2,100          | 1,886                        | 214         |
| 279,834 sq ft Edgewood Vista Hermantown I & II - Hermantown, MN    | October 19, 2017     | 36,884         | 24,697                       | 12,187      |
| 518,161 sq ft Urbandale - Urbandale, IA                            | November 22,<br>2017 | 16,700         | 12,857                       | 3,843       |
| 36,053 sq ft 3075 Long Lake Road - Roseville, MN                   | November 28,<br>2017 | 18,650         | 12,766                       | 5,884       |
| 1,205,432 sq ft 25 Healthcare properties <sup>(3)(4)</sup>         | December 29,<br>2017 | 370,268        | 232,778                      | 137,490     |
| 43,404 sq ft Garden View - St. Paul, MN                            | January 19, 2018     | 14,000         | 6,191                        | 7,809       |
| 52,116 sq ft Ritchie Medical - St. Paul, MN                        | January 19, 2018     | 16,500         | 10,419                       | 6,081       |
|  | March 7, 2018        | 5,500          | 3,215                        | 2,285       |

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22,187 sq ft Bismarck 715 East Broadway and Unimproved  
Land - Bismarck, ND

\$493,042 \$ 312,104 \$ 180,938

Unimproved Land

Bismarck 4916 Unimproved Land - Bismarck, ND

August 8, 2017

3,175

3,188

(13 )

Total Dispositions

\$515,130 \$ 330,862 \$ 184,268

These communities include: 4th Street 4 Plex, 11th Street 3 Plex, Apartments on Main, Brooklyn Heights, Colton (1) Heights, Fairmont, First Avenue (Apartments and Office), Pines, Southview, Summit Park, Temple (includes 17 South Main Retail), Terrace Heights, and Westridge.

(2) \$626,000 of the gain on sale was deferred. See Note 2 for additional information on the related mortgage note receivable.

The properties included: 2800 Medical, 2828 Chicago Avenue, Airport Medical, Billings 2300 Grand Road, Burnsville 303 Nicollet Medical, Burnsville 305 Nicollet Medical, Duluth Denfeld Clinic, Edina 6363 France Medical, Edina 6405 France Medical, Edina 6517 Drew Avenue, Edina 6225 France SMC II, Edina 6545 France (3) SMC I, Gateway Clinic, High Pointe Health Campus, Lakeside Medical Plaza, Mariner Clinic, Minneapolis 701 25th Avenue Medical, Missoula 3050 Great Northern, Park Dental, Pavilion I, Pavilion II, PrairieCare Medical, St. Michael Clinic, Trinity at Plaza 16 and Wells Clinic.

(4) Sale price includes \$2.5 million that was deposited into escrow pending the resolution of certain post-closing items. As of April 30, 2018 these items had not yet been resolved.

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Fiscal 2017 (May 1, 2016 to April 30, 2017)

|   | Date Disposed     | (in thousands)    |                           |                  |
|---|-------------------|-------------------|---------------------------|------------------|
|   |                   | Sales Price       | Book Value and Sales Cost | Gain/(Loss)      |
| <b>Dispositions</b>   |                   |                   |                           |                  |
| <b>Multifamily</b>  |                   |                   |                           |                  |
| 24 unit Pinecone Villas - Sartell, MN                                       | April 20, 2017    | \$ 3,540          | \$ 2,732                  | \$ 808           |
| <b>Healthcare</b>   |                   |                   |                           |                  |
| 189,244 sq ft 9 Idaho Spring Creek Senior Housing Properties <sup>(1)</sup> | October 31, 2016  | \$ 43,900         | \$ 37,397                 | \$ 6,503         |
| 426,652 sq ft 5 Edgewood Vista Senior Housing Properties <sup>(2)</sup>     | January 18, 2017  | 69,928            | 50,393                    | 19,535           |
| 286,854 sq ft 5 Wyoming Senior Housing Properties <sup>(3)</sup>            | February 1, 2017  | 49,600            | 45,469                    | 4,131            |
| 169,001 sq ft 9 Edgewood Vista Senior Housing Properties <sup>(4)</sup>     | February 15, 2017 | 30,700            | 24,081                    | 6,619            |
| 169,562 sq ft 4 Edgewood Vista Senior Housing Properties <sup>(5)</sup>     | March 1, 2017     | 35,348            | 14,511                    | 20,837           |
| 114,316 sq ft Healtheast St. John & Woodwinds - Maplewood & Woodbury MN     | March 6, 2017     | 20,700            | 13,777                    | 6,923            |
| 59,760 sq ft Sartell 2000 23rd Street South - Sartell, MN                   | March 31, 2017    | 5,600             | 5,923                     | (323 )           |
| 98,174 sq ft Legends at Heritage Place - Sartell, MN                        | April 20, 2017    | 9,960             | 11,439                    | (1,479 )         |
|   |                   | \$ 265,736        | \$ 202,990                | \$ 62,746        |
| <b>Other</b>  |                   |                   |                           |                  |
| 195,075 sq ft Stone Container - Fargo, ND                                   | July 25, 2016     | \$ 13,400         | \$ 4,418                  | \$ 8,982         |
| 28,528 sq ft Grand Forks Carmike - Grand Forks, ND                          | December 29, 2016 | 4,000             | 1,563                     | 2,437            |
|   |                   | \$ 17,400         | \$ 5,981                  | \$ 11,419        |
| <b>Unimproved Land</b>  |                   |                   |                           |                  |
| Georgetown Square Unimproved Land - Grand Chute, WI                         | May 6, 2016       | 250               | 274                       | (24 )            |
| <b>Total Property Dispositions</b>  |                   | <b>\$ 286,926</b> | <b>\$ 211,977</b>         | <b>\$ 74,949</b> |

The properties included in this portfolio are: Spring Creek American Falls, Spring Creek Boise, Spring Creek (1)Eagle, Spring Creek Fruitland, Spring Creek Fruitland Unimproved, Spring Creek Meridian, Spring Creek Overland, Spring Creek Soda Springs and Spring Creek Ustick.

(2) The properties included in this portfolio are: Edgewood Vista Bismarck, Edgewood Vista Brainerd, Edgewood Vista East Grand Forks, Edgewood Vista Fargo, and Edgewood Vista Spearfish.

The properties included in this portfolio are: Casper 1930 E 12th Street (Park Place), Casper 3955 E 12th Street (3)(Meadow Wind), Cheyenne 4010 N College Drive (Aspen Wind), Cheyenne 4606 N College Drive (Sierra Hills) and Laramie 1072 N 22nd Street (Spring Wind).

(4) The properties included in this portfolio are: Edgewood Vista Belgrade, Edgewood Vista Billings, Edgewood Vista Columbus, Edgewood Vista Fremont, Edgewood Vista Grand Island, Edgewood Vista Minot, Edgewood Vista

Missoula, Edgewood Vista Norfolk and Edgewood Vista Sioux Falls.

(5) The properties included in this portfolio are: Edgewood Vista Hastings, Edgewood Vista Kalispell, Edgewood Vista Omaha and Edgewood Vista Virginia.

#### Funds From Operations

We consider Funds from Operations (“FFO”) to be a useful measure of performance for an equity REIT. We use the definition of FFO adopted by the National Association of Real Estate Investment Trusts, Inc. (“NAREIT”). NAREIT currently defines FFO as net income or loss attributable to common shareholders computed in accordance with GAAP, adjusted for:

- gains or losses on sales of previously depreciated operating properties;
- cumulative effect of changes in accounting principles;
- impairment write-downs of depreciable real estate assets;
- write-downs of investments in affiliates due to a decrease in value of depreciable real estate assets held by affiliates;
- depreciation of real estate assets; and
- adjustments for unconsolidated partnerships and joint ventures.

Due to limitations of the FFO definition adopted by NAREIT, we have made certain interpretations in applying the definition. We believe all such interpretations not specifically provided for in the NAREIT definition are consistent with the definition. Beginning with the third quarter of fiscal year 2018, we included impairment charges for nondepreciable assets in FFO.

We believe that FFO, which is a standard supplemental measure for equity real estate investment trusts, is helpful to investors in understanding our operating performance, primarily because its calculation excludes depreciation and amortization expense on real estate assets, thereby providing an additional perspective on our operating results. We believe that GAAP historical cost

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depreciation of real estate assets generally is not correlated with changes in the value of those assets, whose value does not diminish predictably over time, as historical cost depreciation implies. The exclusion in NAREIT's definition of FFO of impairment write-downs and gains and losses from the sale of previously depreciated operating real estate assets helps to identify the operating results of the long-term assets that form the base of our investments, and assists management and investors in comparing those operating results between periods. FFO is also used by our management and investors to identify trends in occupancy rates, rental rates and operating costs.

While FFO is widely used by us as a primary performance metric, not all real estate companies use the same definition of FFO or calculate FFO the same way. Accordingly, FFO presented here is not necessarily comparable to FFO presented by other real estate companies. FFO should not be considered as an alternative to net income or any other GAAP measurement of performance, but rather should be considered as an additional, supplemental measure. FFO also does not represent cash generated from operating activities in accordance with GAAP, and is not necessarily indicative of sufficient cash flow to fund all of our needs or our ability to service indebtedness or make distributions. FFO applicable to Common Shares and Units for the fiscal year ended April 30, 2018, decreased to \$36.3 million compared to \$55.2 million for the fiscal year ended April 30, 2017, a change of 34.2%, primarily due to a reduction of NOI as a result of disposition activities, costs related to the redemption of preferred shares, and impairment of unimproved land. FFO applicable to common shares and limited partnership units for the fiscal year ended April 30, 2017 was \$55.2 million, compared to \$103.9 million for the fiscal year ended April 30, 2016.

Reconciliation of Net Income Attributable to Investors Real Estate Trust to Funds From Operations

For the years ended April 30, 2018, 2017 and 2016:

(in thousands, except per share and unit amounts)

| Fiscal Years Ended April 30, 2018 | 2017               | 2016               |
|-----------------------------------|--------------------|--------------------|
| Per                               | Per                | Per                |
| Weighted Avg Share                | Weighted Avg Share | Weighted Avg Share |