INVESTORS REAL ESTATE TRUST
Form 10-K
July 14, 2006

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, 2006

Commission File Number 000-14851

Investors Real Estate Trust
(Exact name of Registrant as specified in its charter)

North Dakota	45-0311232
(State or other jurisdiction of incorporation or organization)	*(IRS Employer Identification No.)*

12 South Main Street
Minot, North Dakota 58701
(Address of principal executive offices)

701-837-4738
(Registrant's telephone number, including area code)

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

None

Securities registered pursuant to Section 12(g) of the Act:
Common Shares of Beneficial Interest *(no par value)*
Series A Cumulative Redeemable Preferred Shares of Beneficial Interest *(no par value)*

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
o Yes þ 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. o Yes þ 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.
þ Yes o No

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. þ

Indicate by check mark whether the Registrant is a large accelerated filer, or accelerated filer, or a non-accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

o Large accelerated filer þ Accelerated filer o Non-accelerated filer

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

o Yes þ No

The aggregate market value of the Registrant's outstanding common shares of beneficial interest held by non-affiliates (i.e., by persons other than officers and trustees of the Registrant as reflected in the table in Item 12 of this Form 10-K, incorporated by reference from the Registrant's definitive Proxy Statement for its 2006 Annual Meeting of Shareholders) was $401,600,311 based on the last reported sale price on the NASDAQ National Market on October 31, 2005.

The number of common shares of beneficial interest outstanding as of June 30, 2006, was 46,986,206.

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 2006 Annual Meeting of Shareholders to be held on September 19, 2006 are incorporated by reference into Part III (Items 10, 11, 12, 13 and 14) hereof.

INVESTORS REAL ESTATE TRUST

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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 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; and other statements preceded by, followed by or otherwise including words such as "believe," "expect," "intend," "project," "plan," "anticipate," "potential," "may," "will," "de "estimate," "should," "continue" and other similar expressions. These statements indicate that we have used assumptions that are subject to a number of risks and uncertainties that could cause our actual results or performance to differ materially from those projected.

Although we believe that the expectations reflected in such forward-looking statements are based on reasonable assumptions, we can give no assurance that these expectations will prove to have been correct. Important factors that could cause actual results to differ materially from the expectations reflected in the forward-looking statements include:

- the economic health of the markets in which we own and operate multi-family and commercial properties, in particular the states of Minnesota and North Dakota, or other markets in which we may invest in the future;

- the economic health of our commercial tenants;

- market rental conditions, including occupancy levels and rental rates, for multi-family residential and commercial properties;

- our ability to identify and secure additional multi-family residential and commercial properties that meet our criteria for investment;

- the level and volatility of prevailing market interest rates and the pricing of our common shares of beneficial interest;

- financing risks, such as our inability to obtain debt or equity financing on favorable terms, or at all; and

- compliance with applicable laws, including those concerning the environment and access by persons with disabilities.

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 is a self-advised equity Real Estate Investment Trust ("REIT") organized under the laws of North Dakota. Since our formation in 1970, our business has consisted of owning and operating income-producing real estate properties. We are structured as an Umbrella Partnership Real Estate Investment Trust or UPREIT and we conduct our day-to-day business operations though our operating partnership, IRET Properties, a North Dakota Limited Partnership ("IRET Properties" or the "Operating Partnership"). Our investments consist of multi-family residential properties and commercial office, medical, industrial and retail properties. These properties are located primarily in the upper Midwest states of Minnesota and North Dakota. For the twelve months ended April 30, 2006, our real estate investments in these two states accounted for 73.4% of our total gross revenue. Our principal executive offices are located in Minot, North Dakota. We also have an office in Minneapolis, Minnesota.

We seek to diversify our investments among multi-family residential and office, medical, industrial and retail properties. As of April 30, 2006, our real estate portfolio consisted of:

- 66 multi-family residential properties, containing 8,648 apartment units and having a total real estate investment amount net of accumulated depreciation of $373.1 million;

- 56 office properties containing approximately 3.8 million square feet of leasable space and having a total real estate investment amount net of accumulated depreciation of $351.1 million;

• 33 medical properties (including assisted living facilities) containing approximately 1.7 million square feet of leasable space and having a total real estate investment amount net of accumulated depreciation of $244.3 million;

• 11 industrial properties (including miscellaneous commercial properties) containing approximately 1.7 million square feet of leasable space and having a total real estate investment amount net of accumulated depreciation of $53.0 million; and

• 45 retail properties containing approximately 1.5 million square feet of leasable space and having a total real estate investment amount net of accumulated depreciation of $99.3 million.

Our residential leases are generally for a one-year term. Our commercial properties are typically leased to tenants under long-term lease arrangements. As of April 30, 2006, no single tenant accounted for more than 10% of our total rental revenues.

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Structure

We were organized as a REIT under the laws of North Dakota on July 31, 1970.

Since our formation, we have operated as a REIT under Sections 856-858 of the Internal Revenue Code of 1986, as amended (the “Code”), and since February 1, 1997, we have been structured as an UPREIT. Since restructuring as an UPREIT, we have conducted all of our daily business operations through IRET Properties. IRET Properties is organized under the laws of North Dakota pursuant to an Agreement of Limited Partnership dated January 31, 1997. IRET Properties is principally engaged in acquiring, owning, operating and leasing multi-family residential and commercial real estate. 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. As of April 30, 2006, IRET, Inc. owned a 77.4% interest in IRET Properties. The remaining ownership of IRET Properties is held by individual limited partners.

Investment Strategy and Policies

Our business objective is to increase shareholder value by employing a disciplined investment strategy. This strategy is focused on growing assets in desired geographical markets, achieving diversification by property type and location, and adhering to targeted returns in acquiring properties.

We generally use available cash or short-term floating rate debt to acquire real estate. We then replace such cash or short-term floating rate debt with fixed-rate secured debt, typically in an amount equal to 65.0% to 75.0% of a property’s appraised value. In appropriate circumstances, we also may acquire one or more properties in exchange for our common shares of beneficial interest (“common shares”) or for limited partnership units of IRET Properties (“limited partnership units” or “UPREIT Units”), which are convertible, after the expiration of a minimum holding period of one year, into cash or, at our sole discretion, into our common shares on a one-to-one basis.

Our investment strategy is to invest in multi-family residential properties and office, medical, industrial and retail commercial properties that are leased to single or multiple tenants, usually for five years or longer, and are located throughout the upper Midwest. We operate mainly within the states of North Dakota and Minnesota, although we also have real estate investments in South Dakota, Montana, Nebraska, Colorado, Georgia, Idaho, Iowa, Kansas, Michigan, Texas and Wisconsin.

In order to implement our investment strategy we have certain investment policies. Our significant investment policies are as follows:

Investments in the securities of, or interests in, entities primarily engaged in real estate activities and other securities. While we are permitted to invest in the securities of other entities engaged in the ownership and operation of real estate, as well as other securities, we currently have no plans to make any investments in other securities.

Any policy, as it relates to investments in other securities, may be changed by a majority of the members of our Board of Trustees at any time without notice to or a vote of our shareholders.

Investments in real estate or interests in real estate. We currently own multi-family residential properties and/or commercial properties in 13 states. We may invest in real estate, or interests in real estate, that is located anywhere in the United States; however, we currently plan to focus our investments in those states in which we already have property, with specific concentration in Minnesota, North Dakota, Nebraska, Montana, and South Dakota. Similarly, we may invest in any type of real estate or interest in real estate including, but not limited to, office buildings, apartment buildings, shopping centers, industrial and commercial properties, special purpose buildings and undeveloped acreage. Under our Second Restated Trustees' Regulations (Bylaws), however, we may not invest more than 10.0% of our total assets in unimproved real estate, excluding property being developed or property where development will be commenced within one year.

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It is not our policy to acquire assets primarily for capital gain through sale in the short term. Rather, it is our policy to acquire assets with an intention to hold such assets for at least a 10-year period. During the holding period, it is our policy to seek current income and capital appreciation through an increase in value of our real estate portfolio, as well as increased revenue as a result of higher rents.

Any policy, as it relates to investments in real estate or interests in real estate may be changed by our Board of Trustees at any time without notice to or a vote of our shareholders.

Investments in real estate mortgages. While not our primary business focus, from time to time we make loans to others that are secured by mortgages, liens or deeds of trust covering real estate. We have no restrictions on the type of property that may be used as collateral for a mortgage loan; provided, however, that except for loans insured or guaranteed by a government or a governmental agency, we may not invest in or make a mortgage loan unless an appraisal is obtained concerning the value of the underlying property. Unless otherwise approved by our Board of Trustees, it is our policy that we will not invest in mortgage loans on any one property if in the aggregate the total indebtedness on the property, including our mortgage, exceeds 85.0% of the property's appraised value. We can invest in junior mortgages without notice to, or the approval of, our shareholders. As of April 30, 2006, we had no junior mortgages outstanding. We had one contract for deed outstanding as of April 30, 2006, with a balance of $434,000 due to us.

Our policies relating to mortgage loans, including second mortgages, may be changed by our Board of Trustees at any time, or from time to time, without notice to, or a vote of, our shareholders.

Policies With Respect to Certain of Our Activities

Our current policies as they pertain to certain of our activities are described as follows:

Cash distributions to shareholders and holders of limited partnership units. We intend to continue our policy of making cash distributions to our common shareholders and the holders of limited partnership units of approximately 65.0% to 90.0% of our funds from operations and to use the remaining funds for capital improvements or the purchase of additional properties. This policy may be changed at any time by our Board of Trustees without notice to, or approval of, our shareholders. We have increased our cash distributions every year since our inception 36 years ago and every quarter since 1988.

Issuing senior securities. As of April 30, 2006, we have issued and outstanding $2,450,638 in investment certificates, which were issued for a definite term and annual interest rate, and which will be redeemed as they mature. In the event of our dissolution, the investment certificates would be paid in preference to our common shares. IRET has discontinued the sale of investment certificates and outstanding certificates will be redeemed as they mature. Additionally, on April 26, 2004, we issued 1,150,000 shares of 8.25% Series A Cumulative Redeemable Preferred Shares of Beneficial Interest (the "Series A preferred shares"). Depending on future interest rate and market conditions, we may issue additional preferred shares or other senior securities which would have dividend and liquidation preference over our common shares.

Borrowing money. We rely on borrowed funds in pursuing our investment objectives and goals. It is generally our policy to seek to borrow up to 65.0% to 75.0% of the appraised value of all new real estate acquired or developed. This policy concerning borrowed funds is vested solely with our Board of Trustees and can be changed by our Board of Trustees at any time, or from time to time, without notice to, or a vote of, our shareholders. Such policy is subject, however, to the limitation in our Bylaws, which provides that unless approved by a majority of the independent members of our Board of Trustees and disclosed to our shareholders in our next quarterly report along with justification for such excess, we may not borrow in excess of 300.0% of our total Net Assets (as such term is used in our Bylaws, which usage is not in accordance with GAAP, "Net Assets" means our total assets at cost before deducting depreciation or other non-cash reserves, less total liabilities). Our Bylaws do not impose any limitation on the amount that we may borrow against any one particular property. As of April 30, 2006, our ratio of total real estate mortgages to total real estate assets was 63.5% while our ratio of total indebtedness as compared to our Net Assets (computed in accordance with our Bylaws) was 138.0%.

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Offering securities in exchange for property. Our organizational structure allows us to issue shares and to offer limited partnership units of IRET Properties in exchange for real estate. The limited partnership units are convertible into cash, or, at our option, common shares on a one-for-one basis after a minimum one-year holding period. All limited partnership units receive the same cash distributions as those paid on common shares. Limited partners are not entitled to vote on any matters affecting us until they convert their limited partnership units to common shares.

Our Articles of Amendment and Third Restated 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. This policy may be changed at any time, or from time to time, without notice to, or a vote of, our shareholders. 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:

	(in thousands)		
	2006	**2005**	**2004**
Limited partnership units issued	1,072	1,996	2,006
Value at issuance	$ 10,964	$ 20,071	$19,851

Acquiring or repurchasing shares. As a REIT, it is our intention to invest only in real estate assets. Our Articles of Amendment and Third Restated 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 Code. Any policy regarding the acquisition or repurchase of shares or other securities is vested solely in our Board of Trustees and may be changed at any time, or from time to time, without notice to, or a vote of, our shareholders.

During fiscal year 2006, we did not repurchase any of our outstanding common shares, preferred shares or limited partnership units, except for the redemption of a nominal amount of fractional common shares held by shareholders, upon request.

To make loans to other persons. Our organizational structure allows us to make loans to other persons, subject to certain conditions and subject to our election to be taxed as a REIT. All loans must be secured by real property or limited partnership units of IRET Properties. Our mortgage loan receivables as of April 30, 2006, totaled $0.4 million, and $0.6 million as of April 30, 2005.

To invest in the securities of other issuers for the purpose of exercising control. We have not, for the past three years, engaged in, and we are not currently engaging in, investment in the securities of other issuers for the purpose of exercising control. Our Articles of Amendment and Third Restated Declaration of Trust does not impose any limitation on our ability to invest in the securities of other issuers for the purpose of exercising control. Any decision to do so is vested solely in our Board of Trustees and may be changed at any time, or from time to time, without notice to, or a vote of, our shareholders.

To provide summary reports to our shareholders. We also have a policy of mailing summary quarterly reports to our shareholders in January, April, July, and October of each year. The quarterly reports do not contain financial statements audited by an independent registered public accounting firm. This policy of providing a summary quarterly report to our shareholders is not required by our organizational documents and may be changed by a majority of our Board of Trustees at any time without notice to or a vote of our shareholders.

Information about Segments

We currently operate in five reportable segments: multi-family residential properties, and office, medical (including assisted living facilities), industrial (including miscellaneous properties) and retail properties. For further information on these segments and other related information, see Note 12 of our consolidated financial statements, and Management’s Discussion and Analysis of Financial Condition and Results of Operations in Item 7 of this Annual Report on Form 10-K.

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Our Executive Officers

Set forth below are the names, ages, titles and biographies of each of our executive officers as of July 1, 2006.

Name	Age	Title
Thomas A. Wentz, Sr.	70	President and Chief Executive Officer
Timothy P. Mihalick	47	Senior Vice President and Chief Operating Officer
Thomas A. Wentz, Jr.	40	Senior Vice President
Diane K. Bryantt	42	Senior Vice President and Chief Financial Officer
Michael A. Bosh	35	Secretary and General Counsel

Thomas A. Wentz, Sr. is a graduate of Harvard College and Harvard Law School, and has been associated with us since our formation on July 31, 1970. Mr. Wentz was a member of our Board of Trustees from 1970 to 1998, Secretary from 1970 to 1987, Vice President from 1987 to July 2000, and has been President and Chief Executive Officer since July 2000. Previously, from 1985 to 1991, Mr. Wentz was a Vice President of our former advisor, Odell-Wentz & Associates, L.L.C., and, until August 1, 1998, was a partner in the law firm of Pringle & Herigstad, P.C.

Timothy P. Mihalick joined us as a financial officer in May 1981, after graduating from Minot State University. He has served in various capacities with us over the years and was named Vice President in 1992. Mr. Mihalick has served as the Chief Operating Officer since 1997, as a Senior Vice President since 2002, and as a member of our Board of Trustees since 1999.

Thomas A. Wentz, Jr. is a graduate of Harvard College and the University of North Dakota School of Law, and joined us as General Counsel and Vice President in January 2000. He has served as a Senior Vice President since 2002 and as a member of our Board of Trustees since 1996. Prior to 2000, Mr. Wentz was a shareholder in the law firm of Pringle & Herigstad, P.C. from 1992 to 1999. Mr. Wentz is a member of the American Bar Association and the North Dakota Bar Association, and he is a Director of SRT Communications, Inc. Mr. Wentz is the son of Thomas A. Wentz, Sr.

Diane K. Bryantt is a graduate of Minot State University, joined us in June 1996, and served as our Controller and Corporate Secretary before being appointed to the positions of Senior Vice President and Chief Financial Officer in 2002. Prior to joining us, Ms. Bryantt was employed by First American Bank, Minot, North Dakota.

Michael A. Bosh joined us as Associate General Counsel and Secretary in September 2002, and was named General Counsel in September 2003. Prior to 2002, Mr. Bosh was a shareholder in the law firm of Pringle & Herigstad, P.C. Mr. Bosh graduated from Jamestown College in 1992 and from Washington & Lee University School of Law in 1995. Mr. Bosh is a member of the American Bar Association and the North Dakota Bar Association.

Employees

As of April 30, 2006, we had 42 employees.

Environmental Matters and Government Regulation

Under various federal, state and local laws, ordinances and regulations relating to the protection of the environment, a current or previous owner or operator of real estate may be liable for the costs of removal or remediation of certain hazardous or toxic substances released at a property, and may be held liable to a governmental entity or to third parties for property damage or personal injuries and for investigation and clean-up costs incurred in connection with any contamination. In addition, some environmental laws create a lien on a contaminated site in favor of the government for damages and costs it incurs in connection with the contamination. These laws often impose liability without regard to whether the current owner was responsible for, or even knew of, the presence of such substances. It is generally our policy to obtain from independent environmental consultants a “Phase I” environmental audit (which involves visual inspection but not soil or groundwater analysis) on all properties that we seek to acquire. We do not believe that any of our properties are subject to any material environmental contamination. However, no assurances can be given that:

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- a prior owner, operator or occupant of the properties we own or the properties we intend to acquire did not create a material environmental condition not known to us, which might have been revealed by more in-depth study of the properties; and

- future uses or conditions (including, without limitation, changes in applicable environmental laws and regulations) will not result in the imposition of environmental liability upon us.

In addition to laws and regulations relating to the protection of the environment, many other laws and governmental regulations are applicable to our properties, and changes in the laws and regulations, or in their interpretation by agencies and the courts, occur frequently. Under the Americans with Disabilities Act of 1990 (the "ADA"), all places of public accommodation are required to meet certain federal requirements related to access and use by disabled persons. In addition, the Fair Housing Amendments Act of 1988 (the "FHAA") requires apartment communities first occupied after March 13, 1990, to be accessible to the handicapped. Non-compliance with the ADA or the FHAA could result in the imposition of fines or an award of damages to private litigants. We believe that those of our properties to which the ADA and/or FHAA apply are substantially in compliance with present ADA and FHAA requirements.

Competition

Investing in and operating real estate is a very competitive business. We compete with other owners and developers of multi-family and commercial properties to attract tenants to our properties. Ownership of competing properties is diversified among other REITs, financial institutions, individuals and public and private companies who are actively engaged in this business. Our multi-family properties compete directly with other rental apartments, as well as with condominiums and single-family homes that are available for rent or purchase in the areas in which our properties are located. Our commercial properties compete with other commercial properties for tenants. Additionally, we compete with other real estate investors, including other REITs, pension and investment funds, partnerships and investment companies, to acquire properties. This competition affects our ability to acquire properties we want to add to our portfolio and the price we pay in acquisitions. During the past year, we have continued to witness a strong demand for quality investment real estate. This demand caused continued high prices for all types of real estate. As a result, we were unable to purchase properties that will generate rates of return similar to those generated by properties we acquired in previous years. We do not believe we have a dominant position in any of the geographic markets in which we operate, but some of our competitors are dominant in selected markets. Many of our competitors have greater financial and management resources than we have. We believe, however, that the geographic diversity of our investments, the experience and abilities of our management, the quality of our assets and the financial strength of many of our commercial tenants affords us some competitive advantages that have in the past and will in the future allow us to operate our business successfully despite the competitive nature of our business.

Corporate Governance

The Company's Board of Trustees has adopted various policies and initiatives to strengthen the Company's corporate governance and increase the transparency of financial reporting. Each of the committees of the Company's Board of Trustees operates under written charters, and the Company's independent trustees meet regularly in executive sessions at which only the independent trustees are present. The Board of Trustees has also adopted a Code of Conduct applicable to trustees, officers and employees, and a Code of Ethics for Senior Financial Officers, and has established processes for shareholder communications with the Board of Trustees.

Additionally, the Company's Audit Committee has established procedures for the receipt, retention and treatment of complaints regarding accounting, internal accounting controls or auditing matters, including procedures for the confidential, anonymous submission by Company employees of concerns regarding accounting or auditing matters. The Audit Committee also maintains a policy requiring Audit Committee approval of all audit and non-audit services provided to the Company by the Company's independent registered public accounting firm.

The Company will disclose any amendment to its Code of Ethics for Senior Financial officers on its website. In the event the Company waives compliance by any of its trustees or officers subject to the Code of Ethics or Code of Conduct, the Company will disclose such waiver in a Form 8-K filed within four business days.

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Website and Available Information

Our internet address is www.iret.com. We make available, free of charge, through the "SEC filings" tab under the Investor Relations section of our internet website, our Annual Report on Form 10-K, our quarterly reports on Form 10-Q, our current reports on Form 8-K, and amendments to such reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after such forms are filed with or furnished to the SEC. Current copies of our Code of Conduct, Code of Ethics for Senior Financial Officers, and Charters for the Audit, Compensation, Executive and Nominating Committees of our Board of Trustees are also available on our website under the heading "Corporate Governance" in the Investor Relations section of our website. Copies of these documents are also available to shareholders upon request addressed to the Secretary at Investors Real Estate Trust, P.O. Box 1988, Minot, North Dakota 58701. Information on our internet website does not constitute part of this Annual Report on Form 10-K.

Item 1A. Risk Factors

Risks Related to Our Properties and Business

Our performance and share value are subject to risks associated with the real estate industry. Our results of operations and financial condition, the value of our real estate assets, and the value of an investment in us are subject to the risks normally associated with the ownership and operation of real estate properties. These risks include, but are not limited to, the following factors which, among others, may adversely affect the income generated by our properties:

- downturns in national, regional and local economic conditions (particularly increases in unemployment);
- competition from other commercial and multi-family residential properties;
- local real estate market conditions, such as oversupply or reduction in demand for commercial and multi-family residential space;
- changes in interest rates and availability of attractive financing;
- declines in the economic health and financial condition of our tenants and our ability to collect rents from our tenants;
- vacancies, changes in market rental rates and the need periodically to repair, renovate and re-lease space;

- increased operating costs, including real estate taxes, state and local taxes, insurance expense, utilities, and security costs;

- significant expenditures associated with each investment, such as debt service payments, real estate taxes and insurance and maintenance costs, which are generally not reduced when circumstances cause a reduction in revenues from a property;

- weather conditions, civil disturbances, natural disasters, or terrorist acts or acts of war which may result in uninsured or underinsured losses; and

- decreases in the underlying value of our real estate.

Our property acquisition activities subject us to various risks which could adversely affect our operating results. We have acquired in the past and intend to continue to pursue the acquisition of properties and portfolios of properties, including large portfolios that could increase our size and result in alterations to our capital structure. Our acquisition activities and their success are subject to numerous risks, including, but not limited to:

- even if we enter into an acquisition agreement for a property, it is subject to customary closing conditions, including completion of due diligence investigations, and we may be unable to complete that acquisition after making a non-refundable deposit and incurring other acquisition-related costs;

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- we may be unable to obtain financing for acquisitions on favorable terms or at all;

- acquired properties may fail to perform as expected;

- the actual costs of repositioning or redeveloping acquired properties may be greater than our estimates; and

- we may be unable quickly and efficiently to integrate new acquisitions into our existing operations.

These risks could have an adverse effect on our results of operations and financial condition.

Acquired properties may subject us to unknown liabilities which could adversely affect our operating results. We may acquire properties subject to liabilities and without any recourse, or with only limited recourse against prior owners or other third parties, with respect to unknown liabilities. As a result, if liability were asserted against us based upon ownership of these properties, we might have to pay substantial sums to settle or contest it, which could adversely affect our results of operations and cash flows. Unknown liabilities with respect to acquired properties might include liabilities for clean-up of undisclosed environmental contamination; claims by tenants, vendors or other persons against the former owners of the properties; liabilities incurred in the ordinary course of business; and claims for indemnification by general partners, directors, officers and others indemnified by the former owners of the properties.

Our geographic concentration in Minnesota and North Dakota may result in losses due to our significant exposure to the effects of economic and real estate conditions in those markets. For the fiscal year ended April 30, 2006, we received approximately 73.4% of our gross revenue from properties in Minnesota and North Dakota. As a result of this concentration, we are subject to substantially greater risk than if our investments were more geographically dispersed. Specifically, we are more significantly exposed to the effects of economic and real estate conditions in those particular markets, such as building by competitors, local vacancy and rental rates and general levels of employment and economic activity. To the extent that weak economic or real estate conditions affect Minnesota and/or North Dakota more severely than other areas of the country, our financial performance could be negatively impacted.

If we are not able to renew leases or enter into new leases on favorable terms or at all as our existing leases expire, our revenue, operating results and cash flows will be reduced. We may be unable to renew leases with our existing tenants or enter into new leases with new tenants due to economic and other factors as our existing leases expire or are terminated prior to the expiration of their current terms. As a result, we could lose a significant source of revenue while remaining responsible for the payment of our obligations. In addition, even if we were able to renew existing leases or enter into new leases in a timely manner, the terms of those leases may be less favorable to us than the terms of expiring leases, because the rental rates of the renewal or new leases may be significantly lower than those of the expiring leases, or tenant installation costs, including the cost of required renovations or concessions to tenants, may be significant. If we are unable to enter into lease renewals or new leases on favorable terms or in a timely manner for all or a substantial portion of space that is subject to expiring leases, our revenue, operating results and cash flows will be adversely affected. As a result, our ability to make distributions to the holders of our shares of beneficial interest may be adversely affected. As of April 30, 2006, approximately 0.78 million square feet, or 9.0% of our total commercial property square footage, was vacant. Approximately 583 of our 8,648 apartment units, or 6.7%, were vacant. As of April 30, 2006, leases on approximately 10.1% of our total commercial segments leased net rentable square footage will expire in fiscal year 2007, 9.8% in fiscal year 2008, 10.0% in fiscal year 2009, 9.7% in fiscal year 2010, and 13.2% in fiscal year 2011.

We face potential adverse effects from commercial tenant bankruptcies or insolvencies. The bankruptcy or insolvency of our commercial tenants may adversely affect the income produced by our properties. If a tenant defaults, we may experience delays and incur substantial costs in enforcing our rights as landlord. If a tenant files for bankruptcy, we cannot evict the tenant solely because of such bankruptcy. A court, however, may authorize the tenant to reject and terminate its lease with us. In such a case, our claim against the tenant for unpaid future rent would be subject to a statutory cap that might be substantially less than the remaining rent actually owed under the lease, and it is unlikely that a bankrupt tenant would pay in full amounts it owes us under a lease. This shortfall could adversely affect our cash flow and results of operations. If a tenant experiences a downturn in its business or other types of financial distress, it may be unable to make timely rental payments. Under some circumstances, we

may agree to partially or wholly terminate the lease in advance of the termination date in consideration for a lease termination fee that is less than the agreed rental amount. Additionally, without regard to the manner in which a lease termination occurs, we are likely to incur additional costs in the form of tenant improvements and leasing commissions in our efforts to lease the space to a new tenant, as well as possibly lower rental rates reflective of declines in market rents.

Because real estate investments are generally illiquid, and various factors limit our ability to dispose of assets, we may not be able to sell properties when appropriate. Real estate investments are relatively illiquid and, therefore, we have limited ability to vary our portfolio quickly in response to changes in economic or other conditions. In addition, the prohibitions under the federal income tax laws on REITs holding property for sale and related regulations may affect our ability to sell properties. Our ability to dispose of assets may also be limited by constraints on our ability to utilize 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, and, in addition, a significant number of our properties were acquired using limited partnership units of IRET Properties, our operating partnership, and are subject to certain agreements which restrict our ability to sell such 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. To accomplish this we must identify attractive re-investment opportunities. Recently, while capital market conditions have been favorable for dispositions, investment yields on acquisitions have been less attractive due to the abundant capital inflows into the real estate sector. These considerations impact our decisions on whether or not to dispose of certain of our assets.

Inability to manage our rapid growth effectively may adversely affect our operating results. We have experienced significant growth in recent years, increasing our total assets from approximately $885.7 million at April 30, 2003, to $1,207.3 million at April 30, 2006, principally through the acquisition of additional real estate properties. Subject to our continued ability to raise equity capital and issue limited partnership units of IRET Properties and identify suitable investment properties, we intend to continue our acquisition of real estate properties. Effective management of this level of growth presents challenges, including:

- the need to expand our management team and staff;
- the need to enhance internal operating systems and controls;
- increased reliance on outside advisors and property managers; 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. Our failure to do so may have a material adverse effect on our financial condition and results of operations and ability to make distributions to the holders of our shares of beneficial interest.

Competition may negatively impact our earnings. We compete with many kinds of institutions, including other REITs, private partnerships, individuals, pension funds and banks, for tenants and investment opportunities. Many of these institutions are active in the markets in which we invest and have greater financial and other resources that may be used to compete against us. With respect to tenants, this competition may affect our ability to lease our properties, the price at which we are able to lease our properties and the cost of required renovations or tenant improvements. With respect to acquisition and development investment opportunities, this competition may cause us to pay higher prices for new properties than we otherwise would have paid, or may prevent us from purchasing a desired property at all.

An inability to make accretive property acquisitions may adversely affect our ability to increase our operating income. From our fiscal year ended April 30, 2004, to our fiscal year ended April 30, 2006, our operating income decreased from $10.0 million to $9.8 million. Our basic and diluted net income per common share was $.20 as of April 30, 2006, compared to $.30 and $.24, respectively, as of April 30, 2005 and 2004. The acquisition of additional real estate properties is critical to our ability to increase our operating income. If we are unable to continue to make real estate acquisitions on terms that meet our financial and strategic objectives, whether due to

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market conditions, a changed competitive environment or unavailability of capital, our ability to increase our operating income may be materially and adversely affected.

High leverage on our overall portfolio may result in losses. As of April 30, 2006, our ratio of total indebtedness to total Net Assets (as that term is used in our Bylaws, which usage is not in accordance with GAAP, “Net Assets” means our total assets at cost before deducting depreciation or other non-cash reserves, less total liabilities) was approximately 138.0%. As of April 30, 2005 and 2004, our percentage of total indebtedness to total Net Assets was approximately 133.9% and 136.8%, respectively. Under our Bylaws we may increase our total indebtedness up to 300.0% of our Net Assets, or by an additional approximately $906 million. There is no limitation on the increase that may be permitted if approved by a majority of the independent members of our board of trustees and disclosed to the holders of our shares of beneficial interest in the next quarterly report, along with justification for any excess.

This amount of leverage may expose us to cash flow problems if rental income decreases. Under those circumstances, in order to pay our debt obligations we might be required to sell properties at a loss or be unable to make distributions to the holders of our shares of beneficial interest. A failure to pay amounts due may result in a default on our obligations and the loss of the property through foreclosure. Additionally, our degree of leverage could adversely affect our ability to obtain additional financing and may have an adverse effect on the market price of our common shares.

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. In addition, because we are unable 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 risk 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.

We anticipate that only a small portion of the principal of our debt will be repaid prior to maturity. Therefore, we are likely to need to refinance at least a 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, such as new equity capital, our cash flows may not be sufficient in all years to repay debt as it matures. Additionally, if we are unable to refinance our indebtedness on acceptable terms, or at all, we may be forced to dispose of one or more of our properties on disadvantageous terms, which may result in losses to us. These losses could have a material adverse effect on us, our ability to make distributions to the holders of our shares of beneficial interest and our ability to pay amounts due on our debt. Furthermore, if a property is mortgaged to secure payment of indebtedness and we are unable to meet mortgage payments, the mortgagee could foreclose upon the property, appoint a receiver and receive an assignment of rents and leases or pursue other remedies, all with a consequent loss of our revenues and asset value. Foreclosures could also create taxable income without accompanying cash proceeds, thereby hindering our ability to meet the REIT distribution requirements of the Internal Revenue Code.

The cost of our indebtedness may increase. We have incurred, and we expect to continue to incur, indebtedness that bears interest at a variable rate. As of April 30, 2006, $24.3 million, or approximately 3.2%, of the principal amount of our total mortgage indebtedness was subject to variable interest rate agreements. If short-term interest rates rise, our debt service payments on adjustable rate debt would increase, which would lower our net income and could decrease our distributions to the holders of our shares of beneficial interest. In addition, portions of our fixed-rate indebtedness incurred for past property acquisitions come due on a periodic basis. Rising interest rates could limit our ability to refinance this existing debt when it matures, and would increase our interest costs, which could have a material adverse effect on us, our ability to make distributions to the holders of our shares of beneficial interest and our ability to pay amounts due on our debt.

We depend on distributions and other payments from our subsidiaries that they may be prohibited from making to us, which could impair our ability to make distributions to holders of our shares of beneficial interest. Substantially all of our assets are held through IRET Properties, our operating partnership, and other of our subsidiaries. As a result, we depend on distributions and other payments from our subsidiaries in order to satisfy our financial obligations and make distributions to the holders of our shares of beneficial interest. The ability of our subsidiaries to make such distributions and other payments depends on their earnings, and may be subject to statutory or contractual limitations. As an equity investor in our subsidiaries, our right to receive assets upon their liquidation or reorganization effectively will be subordinated to the claims of their creditors. To the extent that we are recognized as a creditor of such subsidiaries, our claims may still be subordinate to any security interest in or other lien on their assets and to any of their debt or other obligations that are senior to our claims.

Our current or future insurance may not protect us against possible losses. We carry comprehensive liability, fire, extended coverage and rental loss 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. Moreover, this 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. Additionally, there may be certain extraordinary losses, such as those resulting from civil unrest, terrorism or environmental contamination, that are not generally, or fully, insured against because they are either uninsurable or not economically insurable. For example, we do not currently carry insurance against losses as a result of environmental contamination. Should an uninsured or underinsured loss occur to a property, we could be required to use our own funds for restoration or lose all or part of our investment in, and anticipated revenues from, the property. In any event, we would continue to be obligated on any mortgage indebtedness on the property. Any loss could have a material adverse effect on us, our ability to make distributions to the holders of our shares of beneficial interest and our ability to pay amounts due on our debt. In addition, 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 increase in insurance rates or decrease in available coverage in the future could adversely affect our business and financial condition and results of operations, which could cause a decline in the market value of our securities.

We have significant investments in medical properties and adverse trends in healthcare provider operations may negatively affect our lease revenues from these properties. We have acquired a significant number of specialty medical properties (including assisted living facilities) and may acquire more in the future. As of April 30, 2006, our real estate portfolio consisted of 33 medical properties, with a total real estate investment amount, net of accumulated depreciation, of $244.3 million, or approximately 21.8% of the total real estate investment amount, net of accumulated depreciation, of our entire real estate portfolio. The healthcare industry is currently experiencing changes in the demand for, and methods of delivery of, healthcare services; changes in third-party reimbursement policies; significant unused capacity in certain areas, which has created substantial competition for patients among healthcare providers in those areas; continuing pressure by private and governmental payors to reduce payments to providers of services; and increased scrutiny of billing, referral and other practices by federal and state authorities. Sources of revenue for our medical property tenants may include the federal Medicare program, state Medicaid programs, private insurance carriers and health maintenance organizations, among others. Efforts by such payors to reduce healthcare costs will likely continue, which may result in reductions or slower growth in reimbursement for certain services provided by some of our tenants. These factors may adversely affect the economic performance of some or all of our medical services tenants and, in turn, our lease revenues. In addition, if we or our tenants terminate the leases for these properties, or our tenants lose their regulatory authority to operate such properties, we may not be able to locate suitable replacement tenants to lease the properties for their specialized uses. Alternatively, we may be required to spend substantial amounts to adapt the properties to other uses. Any loss of revenues and/or additional capital expenditures occurring as a result could hinder our ability to make distributions to the holders of our shares of beneficial interest.

Adverse changes in applicable laws may affect our potential liabilities relating to our properties and operations. Increases in real estate taxes and income, service and transfer taxes cannot always be passed through to all tenants in the form of higher rents. As a result, any increase may adversely affect our cash available for distribution, our ability to make distributions to the holders of our shares of beneficial interest and our ability to pay amounts due on our debt. Similarly, changes in laws that increase the potential liability for environmental conditions existing on properties, that increase the restrictions on discharges or other conditions or that affect development, construction and safety requirements may result in significant unanticipated expenditures that could have a material adverse effect on us, our ability to make distributions to the holders of our shares of beneficial interest and our ability to pay

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amounts due on our debt. In addition, future enactment of rent control or rent stabilization laws or other laws regulating multi-family residential properties may reduce rental revenues or increase operating costs.

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. Additionally, 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. This could have an adverse effect on us, our ability to make distributions to the holders of our shares of beneficial interest and our ability to pay amounts due on our debt. Our properties are also subject to various other federal, state and local regulatory requirements, such as state and local fire and life safety requirements. If we fail to comply with these requirements, we could incur fines or private damage awards. Additionally, in the event that existing requirements change, compliance with future requirements may require significant unanticipated expenditures that may adversely affect our cash flow and results of operations.

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 of, 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 may also 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. A finding of liability for an environmental condition as to any one or more properties could have a material adverse effect on us, our ability to make distributions to the holders of our shares of beneficial interest and our ability to pay amounts due on our debt.

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. Such 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.

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.

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 specialized business

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segments in which we operate, and the loss of them would likely have a material adverse effect on our operations, and could adversely impact our relationships with lenders, industry personnel and potential tenants. 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 manage effectively a transition to new personnel, or if we fail to attract and retain qualified and experienced personnel on acceptable terms, our business and prospects could be harmed. The location of our company headquarters in Minot, North Dakota, may make it more difficult and expensive to attract, relocate and retain current and future officers and employees.

Failure to comply with changing regulation of corporate governance and public disclosure could have a material adverse effect on our business, operating results and stock price, and continuing compliance will result in additional expenses. The Sarbanes-Oxley Act of 2002, as well as new rules and standards subsequently implemented by the Securities and Exchange Commission and NASDAQ, have required changes in some of our corporate governance and accounting practices, and are creating uncertainty for us and many other public companies, due to varying interpretations of the rules and their evolving application in practice. We expect these laws, rules and regulations to increase our legal and financial compliance costs, and to subject us to additional risks. In particular, if we fail to maintain the adequacy of our internal controls in accordance with Section 404 of the Sarbanes-Oxley Act of 2002, as such standards may be modified, supplemented or amended from time to time, we may not be able to ensure that we can conclude on an ongoing basis that we have effective internal controls over financial reporting. Failure to maintain an effective internal control environment could have a material adverse effect on our business, operating results, and stock price. Additionally, our efforts to comply with Section 404 of the Sarbanes-Oxley Act and the related regulations have required, and we believe will continue to require, the commitment of significant financial and managerial resources.

Risks Related to Our Structure and Organization

We may incur tax liabilities as a consequence of failing to qualify as a REIT. Although our management believes that we are organized and have operated and are operating in such a manner to qualify as a "real estate investment trust," as that term is defined under the Internal Revenue Code, we may not in fact have operated, or may not be able to continue to operate, in a manner to qualify or remain so qualified. Qualification as a REIT involves the application of highly technical and complex Internal Revenue Code provisions 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 qualifying 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 five percent 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 Internal Revenue 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 shares of beneficial interest of at least 90% of our REIT taxable income, excluding net capital gains. 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. Additionally, if IRET Properties, our operating partnership, 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 have a material adverse effect on us, our ability to make distributions to the holders of our shares of beneficial interest and our ability to pay amounts due on our debt. Furthermore, 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 failed to qualify as a REIT, we would be subject to federal income tax (including any applicable alternative minimum tax) on our taxable income at corporate rates, which would likely have a material adverse effect on us, our ability to make distributions to the holders of our shares of beneficial interest and our ability to pay amounts due on our debt. In addition, we could be subject to increased state and local taxes, and, unless entitled to relief under applicable statutory provisions, we would also be disqualified from treatment as a REIT for the four taxable years following the year during which we lost our qualification. This treatment would reduce funds available for

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investment or distributions to the holders of our shares of beneficial interest because of the additional tax liability to us for the year or years involved. In addition, we would no longer be able to deduct, and would not be required to make, distributions to holders of our common shares. To the extent that distributions to the holders of our shares of beneficial interest had been made in anticipation of qualifying as a REIT, we might be required to borrow funds or to liquidate certain investments to pay the applicable tax.

Failure of our operating partnership to qualify as a partnership would have a material adverse effect on us. We believe that IRET Properties, our operating partnership, qualifies as a partnership for federal income tax purposes. No assurance can be given, however, that the Internal Revenue Service 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 Internal Revenue Service were to be successful in treating IRET Properties as an entity that is 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 of another corporation. Also, the imposition of a corporate tax on IRET Properties would reduce significantly the amount of cash available for distribution by it.

Certain provisions of our Articles of Amendment and Third Restated Declaration of Trust may limit a change in control and deter a takeover. In order to maintain our qualification as a REIT, our Third Restated Declaration of Trust provides that any transaction, other than a transaction entered into through the NASDAQ National Market, (recently renamed the NASDAQ Global Market), or other similar exchange, that would result in our disqualification as a REIT under Section 856 of the Internal Revenue Code, including any transaction that would result in (i) a person owning in excess of the ownership limit of 9.8%, in number or value, of our outstanding shares of beneficial interest, (ii) less than 100 people owning our shares of beneficial interest, (iii) our being “closely held” within the meaning of Section 856(h) of the Internal Revenue Code, or (iv) 50% or more of the fair market value of our shares of beneficial interest being held by persons other than “United States persons,” as defined in Section 7701(a)(30) of the Internal Revenue Code, will be void ab initio. If the transaction is not void ab initio, then the shares of beneficial interest in excess of the ownership limit, that would cause us to be closely held, that would result in 50% or more of the fair market value of our shares of beneficial interest to be held by persons other than United States persons or that otherwise would result in our disqualification as a REIT, 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 the holders of our shares of beneficial interest.

In order to maintain our REIT status, we may be forced to borrow funds during unfavorable market conditions. In order to maintain our REIT status, we may need to borrow funds on a short-term basis to meet the REIT distribution requirements, even if the then-prevailing market conditions are not favorable for these borrowings. To qualify as a REIT, we generally must distribute to our shareholders at least 90% of our net taxable income each year, excluding net capital gains. In addition, we will be subject to a 4% nondeductible excise tax on the amount, if any, by which certain distributions made by us with respect to the calendar year are less than the sum of 85% of our ordinary income, 95% of our capital gain net income for that year, and any undistributed taxable income from prior periods. We intend to make distributions to our shareholders to comply with the 90% distribution requirement and to avoid the nondeductible excise tax and will rely for this purpose on distributions from our operating partnership. However, 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.

Our board of trustees may make changes to our major policies without approval of the holders of our shares of beneficial interest. 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, the holders of our shares of beneficial interest. Accordingly, our shareholders do not control these policies, and policy changes could adversely affect our financial condition and results of operations.

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Risks Related to the Purchase of our Shares of Beneficial Interest

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

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 the holders of our common shares, 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.

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

- operating and financial results below expectations that cannot support the current distribution payment;
- unanticipated costs or cash requirements; or
- a conclusion that the payment of distributions would cause us to breach the terms of certain agreements or contracts, such as financial ratio covenants.

Our distributions are not eligible for the lower tax rate on dividends except in limited situations. The tax rate applicable to qualifying corporate dividends received by individuals prior to 2009 has been reduced to a maximum rate of 15%. This special tax rate is generally not applicable to distributions paid by a REIT, unless such distributions represent earnings on which the REIT itself had been taxed. As a result, distributions (other than capital gain distributions) paid by us to individual investors will generally be subject to the tax rates that are otherwise applicable to ordinary income which, currently, are as high as 35%. This law change may make an investment in our common shares comparatively less attractive relative to an investment in the shares of other entities which pay dividends but are not formed as REITs.

Changes in market conditions could adversely affect the price of our shares of beneficial interest. As is the case with any publicly-traded securities, certain factors outside of our control could influence the value of our common shares, Series A preferred shares and any other classes or series of preferred shares of beneficial interest to be issued in the future. These conditions include, but are not limited to:

- market perception of REITs in general;
- market perception of REITs relative to other investment opportunities;
- market perception of our financial condition, performance, distributions and growth potential;
- prevailing interest rates;
- general economic and business conditions;
- government action or regulation, including changes in the tax laws; and

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- relatively low trading volumes in securities of REITS.

Higher market interest rates may adversely affect the market price of our common shares, and low trading volume on the NASDAQ Global Select Market may prevent the timely resale of our common shares. One of the factors that investors may consider important in deciding whether to buy or sell shares of a REIT is the distribution with respect to such REIT's shares as a percentage of the price of those shares, relative to market interest rates. If market interest rates go up, prospective purchasers of REIT shares may expect a higher distribution rate in order to maintain their investment. Higher market interest rates would likely increase our borrowing costs and might decrease funds available for distribution. Thus, higher market interest rates could cause the market price of our common shares to decline. In addition, although our common shares of beneficial interest are listed on the NASDAQ Global Select Market, the daily trading volume of our shares may be lower than the trading volume for other companies and industries. The average daily trading volume for the period of May 1, 2005, through April 30, 2006, was 63,094 shares and the average monthly trading volume for the period of May 1, 2005 through April 30, 2006 was 1,319,871 shares. As a result of this 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.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

IRET is organized as a REIT under Section 856-858 of the Code, and is in the business of owning, leasing, developing and acquiring real estate properties. Except for certain commercial properties managed by our Minneapolis and Minot offices, these real estate investments are generally managed by third-party professional real estate management companies on our behalf.

Certain financial information from fiscal 2005 and 2004 was adjusted to reflect the effects of discontinued operations. See property disposition discussion within Item 7.

Total Real Estate Rental Revenue

As of April 30, 2006, our real estate portfolio consisted of 66 multi-family residential properties and 145 commercial properties, consisting of office, medical, industrial and retail properties, comprising 33.3%, 31.3%, 21.8%, 4.7%, and 8.9%, respectively, of our total real estate portfolio, based on the dollar amount of our original investment plus capital improvements, net of accumulated depreciation, through April 30, 2006. Gross annual rental revenue and percentages of total annual real estate rental revenue by property type for each of the three most recent fiscal years ended April 30, are as follows:

Fiscal Year Ended April 30, (in thousands)	**Multi-Family Residential Gross Revenue**	**%**	**Commercial Office Gross Revenue**	**%**	**Commercial Medical Gross Revenue**	**%**	**Commercial Industrial Gross Revenue**	**%**	**Commercial Retail Gross Revenue**	**%**	**Total Revenue**
2006	$ 63,363	36.7%	$ 57,523	33.3%	$ 32,184	18.6%	$ 6,372	3.7%	$ 13,357	7.7%	$ 172,799
2005	$ 60,207	38.8%	$ 48,604	31.3%	$ 25,794	16.6%	$ 6,459	4.2%	$ 14,152	9.1%	$ 155,216
2004	$ 59,294	44.6%	$ 39,874	30.0%	$ 15,876	12.0%	$ 6,634	5.0%	$ 11,152	8.4%	$ 132,830

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Economic Occupancy Rates

Economic occupancy rates are shown below for each property type in each of the three most recent fiscal years ended April 30. We define "economic occupancy" as total possible revenue less vacancy loss as a percentage of total possible revenue. Total possible revenue is determined by valuing occupied units or square footage at contract rates and vacant units or square footage at market rates. In the case of multi-family residential properties, lease arrangements with individual tenants vary from month-to-month to one-year leases. Leases on commercial properties generally vary from month-to-month to 20 years.

	Fiscal Year Ended April 30,		
	2006	**2005**	**2004**
Multi-Family Residential Economic Occupancy	91.6%	90.1%	90.2%
Commercial - Office Economic Occupancy	92.5%	90.8%	92.2%
Commercial - Medical Economic Occupancy	96.2%	92.7%	93.6%
Commercial - Industrial Economic Occupancy	87.2%	86.8%	93.6%
Commercial - Retail Economic Occupancy	87.7%	88.6%	92.2%

Certain Lending Requirements

In certain instances, in connection with the acquisition of investment properties, the lender financing such properties 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 corporations, and IRET Properties has organized several limited partnerships, 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

The day-to-day management and leasing of our real estate assets is, with the exception of certain properties managed by our Minneapolis and Minot offices, generally handled by locally-based third-party professional real estate management companies. Day-to-day management activities include the negotiation of potential leases, the preparation of proposed operating budgets, and the supervision of routine maintenance and capital improvements that have been authorized by us. All activities relating to purchase, sale, insurance coverage, capital improvements, approval of commercial leases, annual operating budgets and major renovations are made exclusively by our employees and are then implemented by the third-party property management companies. We believe that under most circumstances the use of locally-based management companies allows us to enjoy the benefits of local knowledge of the applicable real estate market while avoiding the cost and difficulty associated with maintaining management personnel in every city in which we operate.

As of April 30, 2006, we had property management contracts with the following companies:

Residential Management	Commercial Management and Leasing
• Builder's Management & Investment Co., Inc.	• A & L Management Services, LLC
• ConAm, Inc.	• AJB, Inc. dba Points West Realty Management
• Hoban & Associates, Inc. dba Coast Management Company, Inc.	• Bayport Properties US, Inc.
• Investors Management & Marketing, Inc.	• CB Richard Ellis
• Illies Nohava Heinen Property Management, Inc.	• Colliers Turley Martin Tucker Company
• Kahler Property Management	• Dakota Commercial and Development Co.
• Weis Management Corp.	• Equity Commercial Services, Inc.
	• Frauenshuh Companies
	• Ferguson Property Management Services, L.C.
	• Hoyt Properties, Inc.

- Illies Nohava Heinen Property Management, Inc.
- Inland Companies, Inc.
- Nath Management, Inc.
- Northco Management Services, LP
- Opus Northwest Management, LLC
- Paramount Real Estate Corporation
- R.A. Morton & Associates, Inc.

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Commercial Management and Leasing *continued*

- Results Unlimited, Inc.
- The Remada Company
- Thornton Oliver Keller, LLC
- United Properties, LLC
- Vector Property Services, LLC

Generally, our management contracts provide for compensation ranging from 2.5% to 5.0% of gross rent collections and, typically, we may terminate these contracts in 60 days or less or upon the property manager's failure to meet certain specified financial performance goals.

With respect to multi-tenant commercial properties, we rely almost exclusively on third-party brokers to locate potential tenants. As compensation, brokers may receive a commission that is generally calculated as a percentage of the net rent to be paid over the term of the lease. We believe that the broker commissions paid by us conform to market and industry standards, and accordingly are commercially reasonable.

Summary of Real Estate Investment Portfolio

As of April 30, ***(in thousands)***	**2006**	**%**	**2005**	**%**	**2004**	**%**
Real Estate Investments						
Real Estate Owned	$ 1,269,423		$ 1,179,856		$ 1,082,773	
Less Accumulated Depreciation	(148,607)		(118,512)		(98,923)	
	$ 1,120,816	99.5%	$ 1,061,344	99.4%	$ 983,850	99.2%
Undeveloped Land	5,175	0.5%	5,382	0.5%	3,180	0.3%
Mortgage Loans Receivable	409	0.0%	619	0.1%	4,893	0.5%
Total Real Estate Investments	$ 1,126,400	100.0%	$ 1,067,345	100.0%	$ 991,923	100.0%

Summary of Individual Properties Owned as of April 30, 2006

The following table presents information regarding our 211 properties owned as of April 30, 2006. 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. Occupancy rates given are the average economic occupancy rates for the fiscal year ended April 30, 2006:

(N/A = Property held less than 12 months)

(= Real estate not owned in fee; all or a portion is leased under a ground lease)*

*(** = Primarily Parking Lot Rental)*

Property Name and Location	Units	*(in thousands)* Investment	Fiscal 2006 Economic Occupancy
MULTI-FAMILY RESIDENTIAL			
405 Grant Avenue (Lonetree) - Harvey, ND	12	$ 267	89.8%
408 1st Street SE - Minot, ND	**	48	100.0%
Applewood On The Green - Omaha, NE	234	12,319	85.1%
Boulder Court - Eagan, MN	115	6,958	88.5%
Brookfield Village Apartments - Topeka, KS	160	7,723	95.1%
Candlelight Apartments - Fargo, ND	66	1,746	95.9%
Canyon Lake Apartments - Rapid City, SD	109	4,346	84.5%
Castle Rock - Billings, MT	165	6,454	84.9%
Chateau Apartments - Minot, ND	64	2,844	98.9%
Clearwater Apartments- Boise, ID	60	3,986	94.0%
Colonial Villa - Burnsville, MN	240	14,999	82.8%
Colton Heights Properties - Minot, ND	18	1,028	98.3%
Cottonwood Lake I - Bismarck, ND	67	4,633	94.8%
Cottonwood Lake II - Bismarck, ND	67	4,375	95.6%

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Property Name and Location	Units	*(in thousands)* Investment	Fiscal 2006 Economic Occupancy
Cottonwood Lake III - Bismarck, ND	67	$ 4,816	96.5%
Country Meadows I - Billings, MT	67	4,336	93.2%
Country Meadows II - Billings, MT	67	4,488	94.2%
Crestview Apartments - Bismarck, ND	152	5,362	99.0%
Crown Colony Apartments - Topeka, KS	220	11,383	93.8%
Dakota Hill At Valley Ranch - Irving, TX	504	38,882	93.7%
East Park Apartments - Sioux Falls, SD	84	2,738	95.6%
Forest Park Estates - Grand Forks, ND	270	8,684	91.2%
Heritage Manor - Rochester, MN	182	8,241	97.8%
Jenner Properties - Grand Forks, ND	90	2,107	95.1%
Kirkwood Manor - Bismarck, ND	108	4,034	95.4%
Lancaster Place - St. Cloud, MN	84	3,679	84.0%
Legacy Buildings I & II - Grand Forks, ND	116	7,446	94.6%
Legacy Building III - Grand Forks, ND	67	3,953	95.4%
Legacy Building IV- Grand Forks, ND	67	6,803	94.2%
Legacy Building V - Grand Forks, ND	36	2,827	67.7%
Legacy Building VI - Grand Forks, ND	36	2,969	62.0%
Legacy Building VII - Grand Forks, ND	36	2,851	61.2%

Magic City Apartments - Minot, ND	200	5,223	93.6%
Meadows Phase I - Jamestown, ND	27	1,864	99.2%
Meadows Phase II - Jamestown, ND	27	1,942	99.5%
Meadows Phase III - Jamestown, ND	27	2,209	99.8%
Miramont Apartments - Fort Collins , CO	210	15,111	91.7%
Monticello Apartments - Monticello, MN	60	4,376	96.4%
Neighborhood Apartments - Colorado Springs, CO	192	12,709	94.5%
North Pointe - Bismarck, ND	49	2,487	97.4%
Oakmont Apartments - Sioux Falls, SD	80	5,350	95.5%
Oakwood - Sioux Falls, SD	160	6,282	91.6%
Olympic Village - Billings, MT	274	12,596	98.4%
Olympik Village Apartments - Rochester, MN	140	7,296	90.5%
Oxbow - Sioux Falls, SD	120	5,365	95.8%
Park East Apartments - Fargo, ND	122	5,509	92.1%
Park Meadows I - Waite Park, MN	120	4,517	87.2%
Park Meadows II & III - Waite Park, MN	240	9,031	83.1%
Pebble Springs - Bismarck, ND	16	811	98.2%
Pinecone Apartments - Fort Collins , CO	195	14,050	90.4%
Pinehurst Apartments - Billings, MT	21	794	98.9%
Pointe West - Rapid City, SD	90	4,687	88.1%
Prairie Winds Apartments - Sioux Falls, SD	48	2,190	93.2%
Prairiewood Meadows - Fargo, ND	85	3,332	88.7%
Ridge Oaks - Sioux City, IA	132	5,000	92.1%
Rimrock Apartments - Billings, MT	78	4,086	96.7%
Rocky Meadows - Billings, MT	98	6,913	98.3%
Sherwood Apartments - Topeka, KS	300	16,914	94.9%
Southbrook & Mariposa - Topeka, KS	54	5,595	93.1%
South Pointe - Minot, ND	195	10,734	98.3%
Southview Apartments - Minot, ND	24	822	94.4%
Southwind Apartments - Grand Forks, ND	164	6,586	93.2%
Sunset Trail Phase I - Rochester, MN	73	7,127	82.8%
Sunset Trail Phase II - Rochester, MN	73	7,610	87.8%
Sweetwater Properties - Devils Lake & Grafton, ND	90	1,846	88.4%
Sycamore Village Apartments - Sioux Falls, SD	48	1,601	78.6%
Terrace On The Green - Moorhead, MN	116	2,905	96.0%

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Property Name and Location	Units	*(in thousands)* Investment	Fiscal 2006 Economic Occupancy
Thomasbrook Apartments - Lincoln, NE	264	$ 10,935	90.4%
Valley Park Manor - Grand Forks, ND	168	5,789	94.9%
Village Green - Rochester, MN	36	2,569	91.5%
West Stonehill - Waite Park, MN	313	13,685	86.9%
Westwood Park - Bismarck, ND	64	2,591	94.4%
Winchester - Rochester, MN	115	6,664	86.6%

Woodridge Apartments - Rochester, MN	110	7,223	89.9%
TOTAL MULTI-FAMILY RESIDENTIAL	8,648	$ 452,251	91.6%

Property Name and Location	**Approximate Net Rentable Square Footage**	***(in thousands)*** **Investment**	**Fiscal 2006 Economic Occupancy**
OFFICE			
1st Avenue Building - Minot, ND	15,357	$ 576	86.0%
17 South Main - Minot, ND	3,250	110	0.0%
401 South Main - Minot, ND	8,597	636	54.7%
2030 Cliff Road - Eagan, MN	13,374	983	100.0%
7800 W Brown Deer Road - Milwaukee, WI	175,610	11,022	100.0%
American Corporate Center - Mendota Heights, MN	146,808	19,083	100.0%
Ameritrade - Omaha, NE	73,742	8,349	100.0%
Benton Business Park - Sauk Rapids, MN	30,464	1,478	100.0%
Bloomington Business Plaza - Bloomington, MN	121,064	7,999	79.8%
Brenwood - Minnetonka, MN	177,145	15,040	73.5%
Brook Valley I - La Vista, NE	30,000	2,044	N/A
Burnsville Bluffs II - Burnsville, MN	45,158	3,213	54.0%
Cold Spring Center - St. Cloud, MN	75,745	8,635	97.4%
Crosstown Centre - Eden Prairie , MN	185,000	17,860	100.0%
Dewey Hill Business Center - Edina, MN	73,338	5,197	94.0%
Golden Hills Office Center - Golden Valley, MN	190,758	22,347	96.1%
Great Plains - Fargo, ND	122,040	15,375	100.0%
Greenwood Office - Greenwood, MN	5,640	981	0.0%
Highlands Ranch - Highlands Ranch, CO	81,173	11,519	98.2%
Interlachen Corporate Center - Eagan, MN	105,084	16,726	96.1%
Mendota Office Center I - Mendota Heights, MN	59,852	7,146	88.0%
Mendota Office Center II - Mendota Heights, MN	88,398	11,723	88.5%
Mendota Office Center III - Mendota Heights, MN	60,776	6,775	96.8%
Mendota Office Center IV - Mendota Heights, MN	72,231	8,705	100.0%
Metris - Duluth, MN	20,000	2,539	100.0%
Minnesota National Bank - Duluth, MN	27,000	1,745	44.9%
Minnetonka Office Building - Minnetonka, MN	4,000	401	100.0%
Nicollett VII - Burnsville, MN	125,385	7,387	100.0%
Northgate I - Maple Grove, MN	79,377	7,458	100.0%
Northgate II - Maple Grove, MN	25,999	2,425	100.0%
Northpark Corporate Center - Arden Hills, MN	146,087	17,151	N/A
Pillsbury Business Center - Bloomington, MN	42,220	1,894	100.0%
Plaza VII - Boise, ID	27,297	3,491	84.6%
Plymouth I - Plymouth, MN	26,186	1,672	100.0%
Plymouth II - Plymouth, MN	26,186	1,640	47.3%
Plymouth III - Plymouth, MN	26,186	2,012	100.0%
Plymouth IV & V - Plymouth, MN	126,809	14,889	100.0%
Prairie Oak Business Center - Eden Prairie, MN	36,018	5,250	40.8%
Rapid City, SD - 900 Concourse Drive - Rapid City, SD	75,815	7,088	91.5%

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Property Name and Location	Approximate Net Rentable Square Footage	(in thousands) Investment	Fiscal 2006 Economic Occupancy
Southeast Tech Center - Eagan, MN	58,300	$ 6,338	100.0%
Spring Valley IV - Omaha, NE	15,594	1,113	N/A
Spring Valley V - Omaha, NE	23,913	1,364	N/A
Spring Valley X - Omaha, NE	24,000	1,226	N/A
Spring Valley XI - Omaha, NE	24,000	1,259	N/A
TCA Building - Eagan , MN	102,854	9,903	85.8%
Three Paramount Plaza - Bloomington, MN	75,526	8,044	90.4%
Thresher Square - Minneapolis, MN	112,836	11,553	57.5%
UHC Office - International Falls, MN	30,000	2,505	100.0%
US Bank Financial Center - Bloomington, MN	153,947	16,598	96.6%
Viromed - Eden Prairie , MN	48,700	4,864	100.0%
Wayroad Corporate - Minnetonka, MN	62,383	5,567	81.3%
Wells Fargo Center - St Cloud, MN	86,428	9,711	96.6%
West River Business Park - Waite Park, MN	24,000	1,454	85.8%
Westgate - Boise, ID	103,332	12,231	100.0%
Wirth Corporate Center - Golden Valley, MN	75,216	8,986	99.2%
TOTAL OFFICE	3,796,198	$ 383,280	92.5%

Property Name and Location	Approximate Net Rentable Square Footage	(in thousands) Investment	Fiscal 2006 Economic Occupancy
MEDICAL			
2800 Medical Building - Minneapolis, MN	54,971	$ 8,073	N/A
6517 Drew Avenue South - Edina, MN	12,140	1,038	0.0%
Abbott Northwest - Sartell, MN*	60,095	12,653	95.7%
Airport Medical - Bloomington, MN	24,218	4,678	100.0%
Denfeld Clinic - Duluth, MN	20,512	3,099	100.0%
Edgewood Vista - Bismarck, ND	74,112	9,705	N/A
Edgewood Vista - Brainerd, MN	82,535	9,586	N/A
Edgewood Vista - Duluth, MN	119,349	11,709	100.0%
Edgewood Vista - Fremont, NE	6,042	552	100.0%
Edgewood Vista - Hastings, NE	6,042	572	100.0%
Edgewood Vista - Hermantown, MN	160,485	11,236	N/A
Edgewood Vista - Kalispell, MT	5,895	588	100.0%
Edgewood Vista - Missoula, MT	10,150	962	100.0%
Edgewood Vista - Omaha, NE	6,042	641	100.0%
Edgewood Vista - Spearfish, SD	60,161	6,121	N/A
Edgewood Vista - Virginia, MN	70,313	7,070	100.0%
Edgewood Vista Phase II - Virginia, MN	76,870	5,111	100.0%
Fresenius - Duluth, MN	9,052	1,572	100.0%
Garden View - St. Paul, MN *	43,046	7,588	100.0%

Gateway Clinic - Sandstone, MN*	12,444	1,765	100.0%
Health East St John & Woodwinds - Maplewood & Woodbury, MN	114,316	21,601	100.0%
High Pointe Health Campus - Lake Elmo, MN	60,294	12,031	100.0%
Mariner Clinic - Superior, WI *	28,928	3,788	100.0%
Nebraska Orthopaedic Hospital - Omaha, NE*	52,300	20,512	100.0%
Park Dental - Brooklyn Center, MN	10,008	2,952	100.0%
Pavilion I - Duluth, MN*	45,081	10,144	100.0%
Pavilion II - Duluth, MN	74,800	19,325	100.0%
Ritchie Medical Plaza - St Paul, MN	50,409	9,500	N/A
Southdale 6525 France - Edina, MN	67,409	13,746	80.3%
Southdale 6545 France - Edina, MN*	195,983	34,014	84.7%
Stevens Point - Stevens Point, WI	47,950	4,021	N/A

Property Name and Location	**Approximate Net Rentable Square Footage**	***(in thousands)*** **Investment**	**Fiscal 2006 Economic Occupancy**
Wedgewood Sweetwater - Lithia Springs, GA	29,408	$ 4,686	100.0%
Wells Clinic - Hibbing, MN	18,810	2,661	100.0%
TOTAL MEDICAL	1,710,170	$ 263,300	96.2%
INDUSTRIAL			
API Building - Duluth, MN	35,000	$ 1,723	100.0%
Bodycote Industrial Building - Eden Prairie, MN	41,880	2,152	100.0%
Dixon Avenue Industrial Park - Des Moines, IA	604,711	13,091	69.1%
Lexington Commerce Center - Eagan, MN	89,840	6,175	78.8%
Lighthouse - Duluth, MN	59,600	1,884	52.8%
Metal Improvement Company - New Brighton, MN	49,620	2,450	100.0%
Stone Container - Fargo, ND	195,075	7,141	100.0%
Stone Container - Roseville, MN	229,072	8,250	100.0%
Waconia Industrial Building - Waconia, MN	29,440	1,905	31.3%
Wilson’s Leather - Brooklyn Park, MN	353,049	13,805	100.0%
Winsted Industrial Building - Winsted, MN	38,000	1,007	91.5%
TOTAL INDUSTRIAL	1,725,287	$ 59,583	87.2%
RETAIL			
Anoka Strip Center - Anoka, MN	10,625	$ 733	100.0%
Buffalo Strip Center - Buffalo, MN	7,700	521	57.0%
Burnsville 1 Strip Center - Burnsville, MN	8,526	997	100.0%
Burnsville 2 Strip Center - Burnsville, MN	8,400	804	79.6%
Champlin South Pond - Champlin, MN	25,400	3,571	58.4%
Chan West Village - Chanhassen, MN	135,969	20,818	95.4%
Duluth Denfeld Retail - Duluth, MN	36,542	4,984	92.9%
Duluth Tool Crib - Duluth, MN	15,597	1,933	100.0%
Eagan 1 Retail Center - Eagan, MN	5,400	515	100.0%
Eagan 2 Retail Center - Eagan, MN	13,901	1,361	100.0%

Eagan 3 C Store - Eagan, MN	3,886	784	100.0%
East Grand Station - East Grand Forks, MN	16,103	1,392	100.0%
Fargo Express Center - Fargo, ND	30,227	1,438	100.0%
Fargo Express SC Pad 1 - Fargo, ND	4,000	368	100.0%
Faribault Checker Auto - Faribault, MN	5,600	341	100.0%
Forest Lake Auto - Forest Lake, MN	6,836	501	100.0%
Forest Lake Westlake Center - Forest Lake, MN	100,656	8,137	100.0%
Glencoe C Store - Glencoe, MN	4,800	532	100.0%
Grand Forks Carmike - Grand Forks, ND	28,528	2,546	100.0%
Grand Forks Medpark Mall - Grand Forks, ND	59,177	5,697	97.8%
Howard Lake C Store - Howard Lake, MN	3,571	384	100.0%
Jamestown Buffalo Mall - Jamestown, ND	213,271	4,555	90.4%
Jamestown Business Center - Jamestown, ND	99,403	1,512	79.7%
Kalispell Retail Center - Kalispell, MT	52,000	3,470	100.0%
Kentwood Thomasville Furniture - Kentwood, MI	16,080	2,121	100.0%
Ladysmith Pamida - Ladysmith, WI	41,000	1,500	100.0%
Lakeville Strip Center - Lakeville, MN	9,500	1,893	72.0%
Livingston Pamida - Livingston, MT	41,200	1,800	100.0%
Long Prairie C Store - Long Prairie, MN	5,216	502	0.0%
Minot Arrowhead SC - Minot, ND	76,424	3,587	83.4%
Minot Plaza - Minot, ND	11,020	585	100.0%
Monticello C Store - Monticello, MN	3,575	863	100.0%
Moundsview Bakery - Mounds View, MN	4,560	292	100.0%

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Property Name and Location	**Approximate Net Rentable Square Footage**	***(in thousands)* Investment**	**Fiscal 2006 Economic Occupancy**
Omaha Barnes & Noble - Omaha, NE	27,500	$ 3,699	100.0%
Paynesville C Store - Paynesville, MN	4,800	369	0.0%
Pine City C Store - Pine City, MN	4,800	442	100.0%
Pine City Evergreen Square - Pine City, MN	63,225	2,976	96.4%
Prior Lake 1 Strip Center - Prior Lake, MN	6,800	979	44.0%
Prior Lake 3 Strip Center - Prior Lake, MN	4,200	484	65.3%
Rochester Maplewood Square - Rochester, MN	118,398	11,923	62.8%
Schofield Plaza SC - Schofield, WI	25,644	1,698	58.1%
St. Cloud Westgate SC - St. Cloud, MN	104,928	6,787	91.4%
Wilmar Sam Goody - Willmar, MN	6,225	411	100.0%
Winsted C Store - Winsted, MN	3,571	204	8.3%
TOTAL RETAIL	1,474,784	$ 111,009	87.7%
SUBTOTAL		$1,269,423	

Property Name and Location	**Approximate Net Rentable Square Footage**	***(in thousands)* Investment**

UNDEVELOPED LAND AND UNIMPROVED PROPERTY			
17 S Main 2nd Floor - Minot, ND	0	$	12
Cottonwood Lake IV - Bismarck, ND	0		267
Eagan Vacant Land - Eagan, MN	0		423
IGH Vacant Land - Inver Grove Heights, MN	0		564
Kalispell Vacant Land - Kalispell, MT	0		1,421
Long Prairie Vacant Land - Long Prairie, MN	0		162
River Falls Vacant Land - River Falls, WI	0		205
Schofield Plaza Undeveloped - Schofield, WI	0		1,638
Stevens Point Undeveloped - Stevens Point, WI	0		483
TOTAL UNDEVELOPED LAND AND UNIMPROVED PROPERTY	0	$	5,175
TOTAL UNITS RESIDENTIAL SEGMENT	8,648		
TOTAL SQUARE FOOTAGE COMMERCIAL SEGMENTS	8,706,439		
TOTAL INVESTMENTS		$	1,274,598

Mortgages Payable

As of April 30, 2006, individual first mortgage liens on the above properties totaled $765.9 million. Of the $765.9 million of mortgage indebtedness on April 30, 2006, $24.3 million is represented by variable rate mortgages on which the future interest rate will vary based on changes in the interest rate index for each respective loan. The balance of fixed rate mortgages totaled $741.6 million. Principal payments due on our mortgage indebtedness are as follows:

Year Ended April 30, ***(in thousands)***		**Mortgage Principal**
2007	$	24,168
2008		41,796
2009		45,823
2010		108,288
2011		100,472
Later Years		445,343
Total	$	765,890

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Future Minimum Lease Payments

The future minimum lease payments to be received under leases for commercial properties in place as of April 30, 2006, assuming that no options to renew or buy out the leases are exercised, are as follows:

Year Ended April 30, ***(in thousands)***		**Lease Payments**
2007	$	67,325
2008		60,714
2009		52,840
2010		46,354
2011		36,095
Thereafter		179,057

Total	$	442,385

Capital Expenditures

Each year we review the physical condition of each property we own. In order for our properties to remain competitive, attract new tenants, and retain existing tenants, we plan for a reasonable amount of capital improvements. For the year ended April 30, 2006, we spent approximately $16.2 million on capital improvements.

Contracts or Options to Sell

We have granted options to purchase certain of our properties to various third parties. In general, these options grant the right to purchase certain IRET assets at the greater of such asset's appraised value or an annual compounded increase of 2.0% to 2.5% of the initial cost to us. In addition to options granted to third parties, we also granted an option to Charles Wm. James to purchase our Excelsior Retail Center. Mr. James was formerly an officer and trustee of the company. The option exercise price was equal to the price paid by us for the property, plus an annual consumer price index increase. Mr. James exercised the purchase option and closed on the purchase of this property in the fourth quarter of fiscal year 2006. See the discussion of Property Dispositions in Management's Discussion and Analysis of Financial Condition and Results of Operations in Item 7 of this Annual Report on Form 10-K for further information. As of April 30, 2006, our properties subject to purchase options, the cost, plus improvements, of each such property and its gross rental revenue are as follows:

		(in thousands)		
		Gross Rental Revenue		
Property	**Property Cost**	**2006**	**2005**	**2004**
East Grand Station - East Grand Forks, MN	$ 1,392	$ 152	$ 152	$ 152
Edgewood Vista - Bismarck, ND	10,868	653	0	0
Edgewood Vista - Brainerd, MN	10,634	645	0	0
Edgewood Vista - Duluth, MN	11,709	1,472	1,406	1,278
Edgewood Vista - Fremont, NE	552	62	59	59
Edgewood Vista - Hastings, NE	572	63	61	61
Edgewood Vista - Hermantown, MN	12,325	749	0	0
Edgewood Vista - Kalispell, MT	588	62	62	62
Edgewood Vista - Missoula, MT	962	120	120	120
Edgewood Vista - Omaha, NE	641	70	67	67
Edgewood Vista - Spearfish, SD	6,757	406	0	0
Edgewood Vista - Virginia, MN	12,182	1,320	1,320	893
Great Plains Software - Fargo, ND	15,375	1,876	1,876	1,875
Healtheast - Woodbury & Maplewood, MN	21,601	2,032	2,032	1,948
Stevens Point - Stevens Point, WI	4,215	102	0	0
Wedgewood Sweetwater - Lithia Springs, GA	4,686	512	509	502
Total	$ 115,059	$ 10,296	$ 7,664	$ 7,017

Properties by State

The following table presents, as of April 30, 2006, an analysis by state of each of the five major categories of properties owned by us - multi-family residential, office, medical, industrial and retail:

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Total Real Estate Investment by Type and Location

(in thousands)

State	Multi-Family Residential	Commercial Office	Commercial Medical	Commercial Industrial	Commercial Retail	Total	% of Total
Minnesota	$ 106,880	$ 305,877	$ 211,152	$ 39,351	$ 76,433	$ 739,693	58.3%
North Dakota	118,538	16,697	9,705	7,141	20,288	172,369	13.6%
Nebraska	23,254	15,355	22,277	0	3,699	64,585	5.1%
Colorado	41,870	11,519	0	0	0	53,389	4.2%
Montana	39,667	0	1,550	0	5,270	46,487	3.7%
South Dakota	32,559	7,088	6,121	0	0	45,768	3.6%
Kansas	41,615	0	0	0	0	41,615	3.3%
Texas	38,882	0	0	0	0	38,882	3.0%
All Other States	8,986	26,744	12,495	13,091	5,319	66,635	5.2%
Total	$ 452,251	$ 383,280	$ 263,300	$ 59,583	$ 111,009	$ 1,269,423	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. Submission of Matters to a Vote of Security Holders

No matters were submitted to our shareholders during the fourth quarter of the fiscal year ended April 30, 2006.

PART II

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

Quarterly Share and Distribution Data

Effective July 1, 2006, NASDAQ renamed its existing NASDAQ National Market as the NASDAQ Global Market, and created a new market tier, the "NASDAQ Global Select Market". Our common shares of beneficial interest trade on the NASDAQ Global Select Market under the symbol IRETS. On June 30, 2006, the last reported sales price per share of our common shares on the NASDAQ National Market was $9.03. The following table sets forth the quarterly high and low closing sales prices per share of our common shares as reported on the NASDAQ National Market, and the distributions per common share and limited partnership unit declared with respect to each period.

Quarter Ended	High	Low	Distributions Declared (per share and unit)
2006			
April 30, 2006	$ 9.67	$ 9.11	$ 0.1640
January 31, 2006	9.79	9.20	0.1635
October 31, 2005	10.16	8.85	0.1630
July 31, 2005	10.24	9.04	0.1625

Quarter Ended	High	Low	Distributions Declared (per share and unit)

2005			
April 30, 2005	$ 10.26	$ 8.90	$ 0.1620
January 31, 2005	10.72	9.78	0.1615
October 31, 2004	10.30	9.51	0.1610
July 31, 2004	10.47	9.39	0.1605

It is IRET's policy to pay quarterly distributions to our common shareholders, 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 Internal Revenue Code and such other factors as our Board of

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Trustees deems relevant. Since July 1, 1971, IRET has paid quarterly cash distributions in the months of January, April, July and October.

Shareholders

As of June 30, 2006, the Company had approximately 4,488 common shareholders of record, and 46,986,206 common shares of beneficial interest (plus 13,578,669 limited partnership units convertible into 13,578,669 common shares) were outstanding.

Unregistered Sales of Shares

Sales of Unregistered Securities. During the fiscal years ended April 30, 2006, 2005 and 2004, respectively, we issued an aggregate of 342,242, 595,810 and 357,478 unregistered common shares to holders of limited partnership units of IRET Properties upon redemption and conversion of an aggregate of 342,242, 595,810 and 357,478 limited partnership units of IRET Properties on a one-for-one basis. All such issuances of our common shares were exempt from registration as private placements under Section 4(2) of the Securities Act, including Regulation D promulgated thereunder. We have registered the re-sale of such common shares under the Securities Act.

Issuer Purchases of Equity Securities. The Company did not repurchase any of its equity securities during fiscal year 2006, except for repurchases of nominal amounts of fractional shares, at shareholder request.

Item 6. Selected Financial Data

Set forth below is selected financial data on a historical basis for the Company 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)				
	2006	**2005**	**2004**	**2003**	**2002**
Consolidated Income Statement Data					
Revenue	$ 172,799	$ 155,216	$ 132,830	$ 111,907	$ 84,120
Income before minority interest and discontinued operations and gain on sale of other investments	$ 10,995	$ 10,198	$ 10,650	$ 14,252	$ 12,664
Gain on sale of real estate, land, and other investments	$ 3,293	$ 8,605	$ 662	$ 1,595	$ 547
	$ (1,863)	$ (1,801)	$ (2,274)	$ (3,322)	$ (3,304)

Minority interest portion of operating partnership income					
Income from continuing operations	$ 8,671	$ 8,021	$ 7,777	$ 10,311	$ 9,708
Income from discontinued operations	$ 2,896	$ 7,055	$ 1,663	$ 1,937	$ 892
Net income	$ 11,567	$ 15,076	$ 9,440	$ 12,248	$ 10,600
Consolidated Balance Sheet Data					
Total real estate investments	$ 1,126,400	$ 1,067,345	$ 991,923	$ 845,325	$ 685,347
Total assets	$ 1,207,315	$ 1,151,158	$ 1,076,317	$ 885,681	$ 730,209
Mortgages payable	$ 765,890	$ 708,558	$ 633,124	$ 539,397	$ 459,569
Shareholders' equity	$ 289,560	$ 295,172	$ 278,629	$ 214,761	$ 145,578
Consolidated Per Common Share Data *(basic and diluted)*					
Income from continuing operations	$ .14	$ .13	$ .20	$ .32	$ .38
Income from discontinued operations	$ .06	$ .17	$ .04	$ .06	$ .04
Net Income	$ .20	$ .30	$ .24	$ .38	$ .42
Distributions	$ .65	$ .65	$ .64	$ .63	$ .59

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CALENDAR YEAR	**2005**	**2004**	**2003**	**2002**	**2001**
Tax status of distribution					
Capital gain	16.05%	0.00%	3.88%	0.00%	0.00%
Ordinary income	41.48%	44.65%	58.45%	68.29%	65.98%
Return of capital	42.47%	55.35%	37.67%	31.71%	34.02%

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

The following information is provided in connection with, and should be read in conjunction with, the consolidated financial statements included in this Annual Report on Form 10-K. We operate on a fiscal year ending on April 30. The following discussion and analysis is for the fiscal year ended April 30, 2006.

Overview

We are a self-advised equity real estate investment trust engaged in owning and operating income-producing real properties. Our investments include multi-family residential properties and commercial properties located primarily in the upper Midwest states of Minnesota and North Dakota. Our properties are diversified in property type and location. As of April 30, 2006, our real estate portfolio consisted of 66 multi-family residential properties containing 8,648 apartment units and having a total real estate investment amount net of accumulated depreciation of $373.1 million, and 145 commercial properties containing approximately 8.7 million square feet of leasable space and having a total real estate investment amount net of accumulated depreciation of $747.7 million. Our commercial properties consist of:

- 56 office properties containing approximately 3.8 million square feet of leasable space and having a total real estate investment amount net of accumulated depreciation of $351.1 million;

- 33 medical properties (including assisted living facilities) containing approximately 1.7 million square feet of leasable space and having a total real estate investment amount net of accumulated depreciation of $244.3 million;

- 11 industrial properties (including miscellaneous commercial properties) containing approximately 1.7 million square feet of leasable space and having a total real estate investment amount net of accumulated depreciation of $53.0 million; and

- 45 retail properties containing approximately 1.5 million square feet of leasable space and having a total real estate investment amount net of accumulated depreciation of $99.3 million.

Our primary source of income and cash is rents associated with multi-family residential and commercial leases. Our business objective is to increase shareholder value by employing a disciplined investment strategy. This strategy is focused on growing assets in desired geographical markets, achieving diversification by property type and location, and adhering to targeted returns in acquiring properties.

During fiscal year 2006, IRET continued to operate in a challenging economic environment. Job growth at a pace slower than anticipated, abundant commercial property alternatives, continued lower rental income and increased costs for tenant concessions all contributed to continued pressure on revenues at our commercial and multi-family properties. While we saw improvement in vacancy levels in all of our operating segments other than retail, during fiscal year 2006, IRET was able to implement only modest rental rate increases at certain of our multi-family and commercial properties, and continued to rely on rent and other tenant concessions in order to improve occupancy rates. Identifying potential acquisition properties that met our investment criteria also remained difficult during fiscal year 2006. Widespread demand for real estate from traditional and non-traditional investors combined with continued lower tenant demand for commercial space and apartments resulted in lower investment returns from all types of real estate.

During fiscal year 2006, economic vacancy levels at IRET’s commercial segment properties decreased in all segments except retail to 7.5% vacancy at the end of fiscal year 2006 from 9.2% vacancy at the end of fiscal year 2005 in the case of our commercial office portfolio; to 3.8% in fiscal year 2006 from 7.3% in the case of our commercial medical portfolio; and to 12.8% from 13.2% in the case of our commercial industrial portfolio.

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Vacancies in our commercial retail portfolio increased to 12.3% at the end of fiscal year 2006 from 11.4% at the end of fiscal year 2005. Vacancy levels decreased at our total multi-family residential properties, to 8.4% compared to 9.9% at the end of fiscal year 2005. Total revenues of IRET Properties, our operating partnership, increased by $17.6 million to $172.8 million, compared to $155.2 million in fiscal year 2005. This increase was primarily attributable to the addition of new real estate properties. Operating income increased in fiscal year 2006, to $9.8 million from $9.2 in fiscal year 2005, and our rent concessions to tenants increased. We estimate that rent concessions offered to tenants during the twelve months ended April 30, 2006 lowered our operating revenues by approximately $5.2 million, compared to $4.5 million for fiscal year 2005. Expenses increased during fiscal year 2006 as well, with real estate taxes, maintenance, utility, and operating expense all increasing from year-earlier levels. While some of this increase was due to existing real estate, the majority was due to the addition of new real estate to our portfolio.

During fiscal year 2006, the Company added seven medical properties (including five assisted living senior housing facilities) with a total of 530,623 leasable square feet, six office properties with a total of 263,594 leasable square feet, and two small parcels of vacant land adjoining existing Company properties to our investment portfolio, for an aggregate purchase price of approximately $93.4 million. During fiscal year 2006, the Company disposed of 17 properties, consisting of one office property and sixteen retail properties, and two undeveloped properties, for sale prices totaling approximately $14.2 million.

Additional information and more detailed discussions of our fiscal year 2006 operating results are found in the following sections of this Management's Discussion and Analysis of Financial Condition and Results of Operations.

Critical Accounting Policies

Set forth below is a summary of the accounting policies that management believes are critical to the preparation of the consolidated financial statements included in this Annual Report on Form 10-K.

Real Estate. Real estate is carried at cost, net of accumulated depreciation, less an adjustment for impairment, if any. Depreciation requires an estimate by management of the useful life of each property as well as an allocation of the costs associated with a property to its various components. If the Company does not allocate these costs appropriately or incorrectly estimates the useful lives of its real estate, depreciation expense may be misstated. Depreciation is computed on a straight-line basis over the estimated useful lives of the assets. The Company uses a 20-40 year estimated life for buildings and improvements. Maintenance and repairs are charged to operations as incurred. Renovations and improvements that improve and/or extend the useful life of the asset are capitalized over their estimated useful life, generally five to ten years.

Upon acquisitions of real estate, the Company assesses the fair value of acquired tangible assets (including land, buildings and personal property), which is determined by valuing the property as if it were vacant, and considers whether there were significant intangible assets acquired (for example, above-and below-market leases, the value of acquired in-place leases, and tenant relationships, in accordance with Statement of Financial Accounting Standards ("SFAS") No. 141) and acquired liabilities, and allocates the purchase price based on these assessments. The as-if-vacant value is allocated to land, buildings, and personal property based on management's determination of the relative fair value of these assets. The estimated fair value of the property is the amount that would be recoverable upon the disposition of the property. Techniques used to estimate fair value include discounted cash flow analysis, independent appraisals, and reference to recent sales of comparable properties. Estimates of future cash flows are based on a number of factors including the historical operating results, known trends, and market/economic conditions that may affect the property. Land value is assigned based on the purchase price if land is acquired separately, or based on estimated market value if acquired in a merger or in a portfolio acquisition.

Above-market and below-market in-place lease values for acquired properties are recorded based on the present value (using an interest rate which reflects the risks associated with the leases acquired) of the difference between (i) the contractual amounts to be paid pursuant to the in-place leases and (ii) management's estimate of fair market lease rates for the corresponding in-place leases, measured over a period equal to the remaining non-cancelable term of the lease. The Company performs this analysis on a lease-by-lease basis. The capitalized above-market and below-market lease values are amortized and included in operating expenses as depreciation/ amortization related to real estate investments and amortized over the remaining non-cancelable terms of the respective leases.

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Other intangible assets acquired include amounts for in-place lease values that are based upon the Company's evaluation of the specific characteristics of the leases. Factors considered in these analyses include an estimate of carrying costs during hypothetical expected lease-up periods, considering current market conditions, and costs to execute similar leases. The Company also considers information about each property obtained during its pre-acquisition due diligence and marketing and leasing activities in estimating the fair value of the tangible and intangible assets acquired.

Property sales or dispositions are recorded when title transfers and sufficient consideration is received by the Company. The Company's properties are reviewed for impairment if events or circumstances change indicating that the carrying amount of the assets may not be recoverable. If the Company incorrectly estimates the values at acquisition or the undiscounted cash flows, initial allocations of purchase price and future impairment charges may be different. The impact of the Company's estimates in connection with acquisitions and future impairment analysis could be material to the Company's financial statements.

Allowance for Doubtful Accounts. The Company periodically evaluates the collectibility of amounts due from tenants and maintains an allowance for doubtful accounts ($200,000 as of April 30, 2006) for estimated losses resulting from the inability of tenants to make required payments under their respective lease agreements. The Company also maintains an allowance for receivables arising from the straight-lining of rents ($500,000 as of April 30, 2006) and from mortgage loans ($25,000 as of April 30, 2006). The straight-lining of rents receivable arises from earnings recognized in excess of amounts currently due under lease agreements. Management exercises judgment in establishing these allowances and considers payment history and current credit status in developing these estimates. If estimates differ from actual results this would impact reported results.

Revenue Recognition - The Company has the following revenue sources and revenue recognition policies:

- *Base Rents* - income arising from tenant leases. These rents are recognized over the non-cancelable term of the related leases on a straight-line basis, which includes the effects of rent increases and abated rent under the leases. Certain leases provide for tenant occupancy during periods for which no rent is due or where minimum rent payments increase during the term of the lease. Rental revenue is recorded for the full term of each lease on a straight-line basis. Accordingly, the Company records a receivable from tenants for rents that it expects to collect over the remaining lease term as deferred rents receivable. When the Company acquires a property, the term of the existing leases is considered to commence as of the acquisition date for the purposes of this calculation. Revenue recognition is considered to be critical because the evaluation of the realizability of such deferred rents receivable involves management's assumptions relating to such tenant's viability.

- *Percentage Rents* - income arising from retail tenant leases which are contingent upon the sales of the tenant exceeding a defined threshold. These rents are recognized in accordance with SEC Staff Accounting Bulletin 104: Revenue Recognition, which states that this income is to be recognized only after the contingency has been removed (i.e., sales thresholds have been achieved).

- *Expense Reimbursement Income* revenue arising from tenant leases, which provide for the recovery of all or a portion of the operating expenses and real estate taxes of the respective property. This revenue is accrued in the same periods as the expenses are incurred.

Income Taxes. The Company operates in a manner intended to enable it to continue to qualify as a REIT under Sections 856-860 of the Internal Revenue Code of 1986, as amended. Under those sections, a REIT which distributes at least 90% of its REIT taxable income as a distribution to its shareholders each year and which meets certain other conditions will not be taxed on that portion of its taxable income which is distributed to its shareholders. The Company intends to distribute to its shareholders 100% of its taxable income. Therefore, no provision for Federal income taxes is required. If the Company fails to distribute the required amount of income to its shareholders, it would fail to qualify as a REIT and substantial adverse tax consequences may result.

The Company's taxable income is affected by a number of factors, including, but not limited to, the following: that the Company's tenants perform their obligations under their leases with the Company; that the Company's tax and accounting positions do not change; and that the number of issued and outstanding shares of the Company's common stock remain relatively unchanged. These factors, which impact the Company's taxable income, are

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subject to change, and many are outside the control of the Company. If actual results vary, the Company's taxable income may change.

Recent Accounting Pronouncements

On December 16, 2004, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 153, *Exchanges of Nonmonetary Assets - Amendment of APB Opinion No. 29.* The amendments made by SFAS No. 153 are based on the principle that exchanges of nonmonetary assets should be measured based on the fair value of the assets exchanged. Further, the amendments eliminate the narrow exception for nonmonetary exchanges of similar productive assets and replace it with a broader exception for exchanges of nonmonetary assets that do not have "commercial substance." SFAS No. 153 is effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. The adoption of SFAS No. 153 on its effective date did not have a material effect on the Company's consolidated financial statements.

In March 2005, the FASB issued FIN 47, *Accounting for Conditional Asset Retirement Obligations, an interpretation of FASB Statement No. 143, Asset Retirement Obligations*. FIN 47 provides clarification of the term "conditional asset retirement obligation" as used in SFAS 143, defined as a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the company. Under this standard, a company must record a liability for a conditional asset retirement obligation if the fair value of the obligation can be reasonably estimated. FIN 47 became effective in the Company's fiscal quarter ended April 30, 2006. Certain of the Company's real estate assets contain asbestos, lead and/or underground fuel tanks. Although these materials are appropriately contained, in accordance with current environmental regulations, the Company's practice is to remediate asbestos and lead upon the renovation or redevelopment of its properties, if such renovation or redevelopment would disturb the contained materials, and to remove underground fuel tanks if they are no longer in use. The majority of the Company's real estate assets containing asbestos, lead and/or underground fuel tanks are not currently slated for renovation, redevelopment or fuel tank removal and, accordingly, the Company has determined that at this time there is not sufficient information available to reasonably estimate the fair value of the liability. The costs associated with asbestos, lead and/or underground fuel tank abatement or removal for those few properties which IRET does have current plans to renovate, demolish or sell have been estimated by IRET and are immaterial, individually and in the aggregate. Accordingly, the adoption of FIN 47 did not have a material impact on the Company's consolidated financial statements.

In June 2005, the FASB ratified the consensus reached by the Emerging Issues Task Force ("EITF") on Issue No. 04-05, "Determining Whether a General Partner, or General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights" ("EITF 04-05"). EITF 04-05 provides a framework for determining whether a general partner controls, and should consolidate, a limited partnership or a similar entity. EITF 04-05 became effective on June 29, 2005, for all newly formed or modified limited partnership arrangements and January 1, 2006 for all existing limited partnership arrangements. The Company believes that the adoption of this standard will not have a material effect on its consolidated financial statements.

RESULTS OF OPERATIONS

Revenues

Total revenues for fiscal year 2006 were $172.8 million, compared to $155.2 million in fiscal year 2005 and $132.8 million in fiscal year 2004. Revenues during fiscal year 2006 were $17.6 million greater than revenues in fiscal year 2005 and revenues during fiscal year 2005 were $22.4 million greater than in fiscal year 2004.

For fiscal 2006, the increase in revenue of $17.6 million resulted from:

		(in thousands)
Rent from 16 properties acquired in fiscal year 2005 in excess of that received in 2005 from the same 16 properties	$	9,816
Rent from 15 properties acquired in fiscal year 2006		6,704
Increase in rental income on existing properties		860
An increase in straight-line rents		203
	$	17,583

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For fiscal 2005, the increase in revenue of $22.4 million resulted from:

		(in thousands)
Rent from 28 properties acquired in fiscal year 2004 in excess of that received in 2004 from the same 28 properties	$	14,813
Rent from 17 properties acquired in fiscal year 2005		9,745
Decrease in rental income on existing properties, net of declining occupancy levels		(2,431)
An increase in straight-line rents		724
A decrease in rent from properties sold in Fiscal 2006		(465)
	$	22,386

As illustrated above, the substantial majority of the increase in our gross revenue for fiscal years 2006 and 2005 resulted from the addition of new real estate properties to the IRET Properties' portfolio, rather than from rental increases on existing properties. For the next 12 months, we expect acquisitions to continue to be the most significant factor in any increases in our revenues and ultimately our net income. While acceptable real estate assets are still available for purchase, stable to declining tenant demand combined with a continued widespread demand for real estate from traditional and non-traditional investors has resulted in a reduction in the investment returns from all types of real estate. This reduction in the rates of return has been offset to some extent by the decline in borrowing costs. While we were able to take advantage of those lower borrowing costs for most of our recent acquisitions, our borrowing costs are rising, and the majority of our debt is fixed and not prepayable without significant prepayment costs and fees.

Gain on Sale of Real Estate

The Company realized a gain on sale of real estate, land and other investments for fiscal year 2006 of $3.3 million. This compares to $8.6 million of gain on sale of real estate recognized in fiscal 2005 and $0.7 million recognized in fiscal 2004. A list of the properties sold during fiscal year 2006, showing sales price, depreciated cost plus sales costs and net gain is included in this Item 7 under the caption “Property Dispositions.”

Segment Expenses and Operating Profit

The following tables show the changes in revenues, operating expenses, interest and depreciation by reportable operating segment for fiscal year 2006 compared to fiscal year 2005, and for fiscal year 2005 compared to fiscal year 2004. For a reconciliation of segment revenues, profit (loss) and assets to the consolidated financial statements, see Note 12 of the Notes to Consolidated Financial Statements in this report.

Fiscal year ended April 30, 2006, compared to fiscal year ended April 30, 2005.

	(in thousands)			
	2006	**2005**	**Change**	**% Change**
MULTI-FAMILY RESIDENTIAL				
Real Estate Revenue	$ 63,363	$ 60,207	$ 3,156	5.2%
Expenses				
Mortgage Interest	18,373	18,247	126	0.7%
Depreciation/amortization related to real estate investments.	11,614	11,075	539	4.9%
Utilities	6,757	5,832	925	15.9%
Maintenance	8,069	6,928	1,141	16.5%
Real Estate Taxes	7,142	7,057	85	1.2%
Insurance	1,432	1,521	(89)	(5.9%)
Property Management	7,185	6,805	380	5.6%
Total Segment Expense	60,572	57,465	3,107	5.4%
Segment Operating Profit	$ 2,791	$ 2,742	$ 49	1.8%

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	(in thousands)			
	2006	**2005**	**Change**	**% Change**
COMMERCIAL OFFICE				
Real Estate Revenue	$ 57,523	$ 48,604	$ 8,919	18.4%
Expenses				
Mortgage Interest	14,777	12,715	2,062	16.2%
Depreciation/amortization related to real estate investments	14,319	12,780	1,539	12.0%
Utilities	4,812	3,386	1,426	42.1%
Maintenance	7,590	6,312	1,278	20.2%
Real Estate Taxes	8,028	7,153	875	12.2%
Insurance	707	537	170	31.7%
Property Management	2,489	2,100	389	18.5%
Total Segment Expense	52,722	44,983	7,739	17.2%
Segment Operating Profit	$ 4,801	$ 3,621	$ 1,180	32.6%

	(in thousands)			
	2006	**2005**	**Change**	**% Change**
COMMERCIAL MEDICAL				
Real Estate Revenue	$ 32,184	$ 25,794	$ 6,390	24.8%
Expenses				
Mortgage Interest	10,608	8,923	1,685	18.9%
Depreciation/amortization related to real estate investments	7,065	5,305	1,760	33.2%
Utilities	1,600	1,142	458	40.1%
Maintenance	2,471	1,870	601	32.1%
Real Estate Taxes	2,283	1,616	667	41.3%
Insurance	298	277	21	7.6%
Property Management	1,662	1,273	389	30.6%
Total Segment Expense	25,987	20,406	5,581	27.3%
Segment Operating Profit	$ 6,197	$ 5,388	$ 809	15.0%

	(in thousands)			
	2006	**2005**	**Change**	**% Change**
COMMERCIAL INDUSTRIAL				
Real Estate Revenue	$ 6,372	$ 6,459	$ (87)	(1.3%)
Expenses				
Mortgage Interest	2,240	2,302	(62)	(2.7%)
Depreciation/amortization related to real estate investments	1,551	1,523	28	1.8%
Utilities	91	60	31	51.7%
Maintenance	201	185	16	8.6%
Real Estate Taxes	771	797	(26)	(3.3%)
Insurance	81	78	3	3.8%
Property Management	108	104	4	3.8%
Total Segment Expense	5,043	5,049	(6)	(0.1%)
Segment Operating Profit	$ 1,329	$ 1,410	$ (81)	(5.7%)

	(in thousands)			
	2006	**2005**	**Change**	**% Change**
COMMERCIAL RETAIL				
Real Estate Revenue	$ 13,357	$ 14,152	$ (795)	(5.6%)
Expenses				
Mortgage Interest	4,155	3,917	238	6.1%
Depreciation/amortization related to real estate investments	2,634	2,608	26	1.0%
Utilities	415	400	15	3.8%
Maintenance	1,161	988	173	17.5%
Real Estate Taxes	1,799	1,793	6	0.3%
Insurance	189	190	(1)	(0.5%)
Property Management	560	288	272	94.4%
Total Segment Expense	10,913	10,184	729	7.2%
Segment Operating Profit	$ 2,444	$ 3,968	$ (1,524)	(38.4%)

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Fiscal year ended April 30, 2005, compared to fiscal year ended April 30, 2004.

	(in thousands)			
	2005	**2004**	**Change**	**% Change**
MULTI-FAMILY RESIDENTIAL				
Real Estate Revenue	$ 60,207	$ 59,294	$ 913	1.5%
Expenses				
Mortgage Interest	18,247	17,647	600	3.4%
Depreciation/amortization related to real estate investments.	11,075	10,310	765	7.4%
Utilities	5,832	5,667	165	2.9%
Maintenance	6,928	6,829	99	1.4%
Real Estate Taxes	7,057	6,675	382	5.7%
Insurance	1,521	2,001	(480)	(24.0%)

Property Management	6,805	6,225	580	9.3%
Total Segment Expense	57,465	55,354	2,111	3.8%
Segment Operating Profit	$ 2,742	$ 3,940	$ (1,198)	(30.4%)

	(in thousands)			
	2005	**2004**	**Change**	**% Change**
COMMERCIAL OFFICE				
Real Estate Revenue	$ 48,604	$ 39,874	$ 8,730	21.9%
Expenses				
Mortgage Interest	12,715	11,001	1,714	15.6%
Depreciation/amortization related to real estate investments	12,780	7,129	5,651	79.3%
Utilities	3,386	2,768	618	22.3%
Maintenance	6,312	5,646	666	11.8%
Real Estate Taxes	7,153	5,745	1,408	24.5%
Insurance	537	450	87	19.3%
Property Management	2,100	1,764	336	19.0%
Total Segment Expense	44,983	34,503	10,480	30.4%
Segment Operating Profit	$ 3,621	$ 5,371	$ (1,750)	(32.6%)

	(in thousands)			
	2005	**2004**	**Change**	**% Change**
COMMERCIAL MEDICAL				
Real Estate Revenue	$ 25,794	$ 15,876	$ 9,918	62.5%
Expenses				
Mortgage Interest	8,923	5,841	3,082	52.8%
Depreciation/amortization related to real estate investments	5,305	2,977	2,328	78.2%
Utilities	1,142	775	367	47.4%
Maintenance	1,870	1,451	419	28.9%
Real Estate Taxes	1,616	1,491	125	8.4%
Insurance	277	149	128	85.9%
Property Management	1,273	1,156	117	10.1%
Total Segment Expense	20,406	13,840	6,566	47.4%
Segment Operating Profit	$ 5,388	$ 2,036	$ 3,352	164.6%

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	(in thousands)			
	2005	**2004**	**Change**	**% Change**
COMMERCIAL INDUSTRIAL				
Real Estate Revenue	$ 6,459	$ 6,634	$ (175)	(2.6%)
Expenses				
Mortgage Interest	2,302	2,092	210	10.0%
Depreciation/amortization related to real estate investments	1,523	1,253	270	21.5%
Utilities	60	49	11	22.4%

Maintenance		185		202	(17)	(8.4%)
Real Estate Taxes		797		768	29	3.8%
Insurance		78		66	12	18.2%
Property Management		104		98	6	6.1%
Total Segment Expense		5,049		4,528	521	11.5%
Segment Operating Profit	$	1,410	$	2,106	$ (696)	(33.0%)

		(in thousands)				
		2005		**2004**	**Change**	**% Change**
COMMERCIAL RETAIL						
Real Estate Revenue	$	14,152	$	11,152	$ 3,000	26.9%
Expenses						
Mortgage Interest		3,917		3,164	753	23.8%
Depreciation/amortization related to real estate investments		2,608		1,874	734	39.2%
Utilities		400		275	125	45.5%
Maintenance		988		735	253	34.4%
Real Estate Taxes		1,793		1,733	60	3.5%
Insurance		190		157	33	21.0%
Property Management		288		118	170	144.1%
Total Segment Expense		10,184		8,056	2,128	26.4%
Segment Operating Profit	$	3,968	$	3,096	$ 872	28.2%

Changes in Expenses and Net Income

Operating income for fiscal year 2006 increased to $9.8 million from $9.2 million in fiscal year 2005, and was $10.0 million in fiscal year 2004. Our net income available to common shareholders for fiscal year 2006 was $9.2 million, compared to $12.7 million in fiscal year 2005 and $9.4 million in fiscal year 2004. On a per common share basis, net income was $0.20 per common share in fiscal year 2006, compared to $0.30 per common share in fiscal year 2005 and $0.24 in fiscal year 2004.

These changes in operating income and net income result from the changes in revenues and expenses detailed below:

Changes in net income available to common shareholders for fiscal year 2006 resulted from:

	(in thousands)
An increase in net rental income primarily due to new acquisitions (*rents, less utilities, maintenance, taxes, insurance and management)*	$ 8,374
An increase in non-operating income	255
An increase in gain on sale of other investments	20
A decrease in operating expenses, administrative, advisory & trustee services	191
These increases were offset by:	
An increase in depreciation/amortization expense related to real estate investments	(3,922)
An increase in interest expense primarily due to debt placed on new acquisitions	(3,377)
An increase in amortization expense	(315)
An increase in minority interest of other partnership's income	(105)
An increase in minority interest of operating partnership income	(62)
A decrease in income from discontinued operations, net	(4,159)
Loss on impairment of real estate investment	(409)
Total decrease in fiscal 2006 net income available to common shareholders	$ (3,509)

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Changes in net income available to common shareholders for fiscal year 2005 resulted from:

	(in thousands)
An increase in net rental income primarily due to new acquisitions (*rents, less utilities, maintenance, taxes, insurance and management)*	$ 16,687
An increase in income from discontinued operations, net	5,392
An increase in non-operating income	338
A decrease in minority interest of operating partnership income	473
A decrease in minority interest of other partnership's income	378
These increases were partially offset by:	
An increase in interest expense primarily due to debt placed on new acquisitions	(5,960)
An increase in depreciation/amortization expense related to real estate investments	(9,785)
An increase in dividends to preferred shareholders	(2,339)
An increase in operating expenses, administrative, advisory & trustee services	(1,469)
An increase in amortization expense	(263)
A decrease in gain on sale of other investments	(155)
Total increase in fiscal 2005 net income available to common shareholders	$ 3,297

Factors Impacting Net Income During Fiscal Year 2006 as Compared to Fiscal Year 2005

Compared to the prior two fiscal years, there were a number of factors that continued to limit the growth of our total revenue and ultimately negatively impacted our net income. A discussion of the factors having the greatest impact on our business compared to the prior two fiscal years is set forth below. In management's opinion, most of these negative influences show signs of continuing to lessen in the next twelve months.

• *Increased concessions and limited ability to raise rents*. During fiscal year 2006, economic occupancy levels at our multi-family residential and commercial properties improved. "Economic Occupancy" is defined as total possible revenue less vacancy loss as a percentage of total possible revenue. Total possible revenue is determined by valuing occupied units or square footage at contract rates, and vacant units or square footage at market rates. However, our level of tenant concessions continued to rise, and, despite some positive developments in the general economy, a majority of the markets in which we operate continue to experience lower-than-expected levels of job creation and demand for multi-family residential and commercial space. Accordingly, we were unable to raise rents significantly at the majority of our properties. Economic vacancy levels at our stabilized multi-family residential properties decreased throughout our entire portfolio during fiscal year 2006, to 8.0% compared to 9.7% at the end of fiscal year 2005, for economic occupancy levels of approximately 92.0% in fiscal year 2006 compared to approximately 90.3% in fiscal year 2005. "Stabilized properties" are those properties that we have owned for the entirety of the periods being compared, and include properties that were redeveloped or expanded during the periods being compared.

Economic vacancy levels at our stabilized total commercial segment properties decreased to 8.9% during fiscal year 2006, from 10.1% at the end of fiscal year 2005, for economic occupancy levels of approximately 91.1% in fiscal year 2006 compared to approximately 89.9% in fiscal year 2005. On an individual commercial segment basis, economic vacancy levels at our stabilized commercial office, medical and industrial properties decreased to 8.5%, 5.7% and 12.8%, respectively, during fiscal year 2006, from 9.8%, 8.8% and 13.2%, respectively, during fiscal year 2005. Economic vacancy levels at our stabilized commercial retail properties increased to 12.3% during fiscal year 2006, compared to 11.3% during fiscal year 2005.

To maintain physical occupancy levels at our multi-family residential properties, we may offer tenant incentives, generally in the form of lower rents, which results in decreased revenues and income from operations at our stabilized properties. We estimate that rent concessions offered during fiscal year 2006 lowered our operating revenues by approximately $5.2 million, compared to an estimated approximately $4.5 million reduction in operating revenues attributable to rent concessions offered in fiscal year 2005.

• *Increased real estate taxes*. Real estate taxes on properties newly acquired in fiscal years 2005 and 2006 added $2 million to the real estate taxes category, while real estate taxes on existing properties decreased by

$393,000, resulting in a net increase in real estate tax expense of $1.6 million, or 8.7%, for fiscal year 2006, as compared to fiscal year 2005.

• *Increased maintenance expense.* Maintenance expenses at our properties increased by $3.2 million, or 19.7% for the fiscal year ended April 30, 2006, as compared to fiscal year 2005. Of the increased maintenance costs for the fiscal year ended April 30, 2006, $2.4 million, or 74.5%, is attributable to the addition of new real estate acquired in fiscal 2006 and 2005, while $817,000, or 25.5%, is due to increased costs for maintenance on existing real estate assets. Under the terms of most of our commercial leases, the full cost of maintenance is paid by the tenant as additional rent. For our non-commercial real estate properties, any increase in our maintenance costs must be collected from tenants in the form of a general rent increase. While we have implemented selected rent increases, the current economic conditions and vacancy levels have prevented us from raising rents in the amounts necessary to fully recover our increased maintenance costs.

• *Increased utility expense.* The utility expense category increased by $2.9 million, or 26.4%, for the fiscal year ended April 30, 2006, compared to fiscal year 2005. Of the increased utility costs, $1.6 million, or 56.5%, is attributable to the addition of new real estate acquired in fiscal years 2006 and 2005, while $1.2 million, or 43.5%, is due to increased costs for utilities on existing real estate assets. Under the terms of most of our commercial leases, the full cost of utilities is paid by the tenant as additional rent. For our other non-commercial real estate properties, any increase in our utility costs must be collected from tenants in the form of a general rent increase. While we have implemented selected rent increases, the current economic conditions, and vacancy levels at our properties, have prevented us from raising rents in the amounts necessary to fully recover our increased utility costs. Additionally, since our real estate portfolio is primarily located in Minnesota and North Dakota, the severity of winters has a large impact on our utility costs.

• *Increased mortgage interest expense*. Our mortgage debt increased $57.3 million, or 8.1%, for the fiscal year ended April 30, 2006 compared to fiscal year 2005, to approximately $765.9 million from approximately $708.6 million. Mortgage interest expense at properties newly acquired in fiscal years 2005 and 2006 added $4.6 million to the mortgage interest expense category, while mortgage interest expense at existing properties decreased by $522,000, resulting in a net increase of $4.0 million or 8.8% in mortgage interest expense in fiscal year 2006 compared to fiscal year 2005.

Factors Impacting Net Income During Fiscal Year 2005 as Compared to Fiscal Year 2004

• *Increased economic vacancy and concessions.* During fiscal year 2005, economic vacancy levels at our stabilized multi-family residential properties decreased slightly throughout our entire portfolio to 9.2% compared to 9.4% at the end of fiscal year 2004, for economic occupancy levels of approximately 90.8% in fiscal year 2005 compared to approximately 90.6% in fiscal year 2004. However, economic vacancy levels at our stabilized total commercial segment properties increased to 10.7%, from 7.4% at the end of fiscal year 2004, for economic occupancy levels of approximately 89.3% in fiscal year 2005 compared to approximately 92.6% in fiscal year 2004. A majority of the markets in which we operate continued to experience overall poor economic conditions in respect to job creation. The poor economic climate translated into increased vacancy at many of our properties.

While economic occupancy levels at our multi-family residential properties showed signs of improvement during the last half of fiscal year 2005, our level of tenant concessions did not decline significantly, and results at our multi-family residential properties continued to be negatively influenced by the availability of low-interest mortgages to prospective home buyers. To maintain physical occupancy levels at our multi-family residential properties, we offered tenant incentives, generally in the form of lower rents, which resulted in decreased revenues and income from operations at our stabilized properties. We estimate that rent concessions offered during fiscal year 2005 lowered our operating revenues by approximately $4.5 million, as compared to an estimated approximately $2.9 million reduction in operating revenues attributable to rent concessions offered in fiscal year 2004.

• *Increased real estate taxes.* Taxes imposed on our real estate properties increased by $2.0 million, or 12.3% for the fiscal year ended April 30, 2005. Of the increased real estate taxes, $2.4 million or 118.4% was attributable to the addition of new real estate acquired in fiscal 2005 and 2004, while ($0.4) million or (18.4)% was due to decreased costs for real estate taxes on existing real estate assets.

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Under the terms of most of our commercial leases, the full cost of real estate tax is paid by the tenant as additional rent. For our non-commercial real estate properties, any increase in our real estate tax costs must be collected from tenants in the form of a general rent increase. While we implemented selected rent increases, economic conditions and increased vacancy levels prevented us from raising rents in the amount necessary to fully recover our increased real estate tax costs.

• *Increased maintenance expense.* The maintenance expense category increased by $1.4 million or 9.4% for the fiscal year ended April 30, 2005, as compared to the corresponding period of fiscal year 2004. Of the increased maintenance costs for the fiscal year ended April 30, 2005, $2.2 million or 157.4% was attributable to the addition of new real estate acquired in fiscal 2005 and 2004, while $(0.8) million or (57.4)% was due to decreased costs for maintenance on existing real estate assets. Under the terms of most of our commercial leases, the full cost of maintenance is paid by the tenant as additional rent. For our non-commercial real estate properties, any increase in our maintenance costs must be collected from tenants in the form of a general rent increase. While we implemented selected rent increases, economic conditions and increased vacancy levels prevented us from raising rents in the amount necessary to fully recover our increased maintenance costs.

• *Increased utility expense.* The utility expense category increased by $1.3 million or 13.6% for the fiscal year ended April 30, 2005, as compared to fiscal year 2004. Of the increased utility costs, $1.3 million or 102.1% was attributable to the addition of new real estate acquired in fiscal 2005 and 2004, while $(0.03) million or (2.1)% was due to decreased costs for utilities on existing real estate assets. Under the terms of most of our commercial leases, the full cost of utilities is paid by the tenant as additional rent. For our other non-commercial real estate properties, any increase in our utility costs must be collected from tenants in the form of a general rent increase. While we implemented selected rent increases, economic conditions and increased vacancy levels prevented us from raising rents in the amount necessary to fully recover our increased utility costs. Since our real estate portfolio is primarily located in Minnesota and North Dakota, the severity of winters has a large impact on our utility costs.

• *Increased administrative and operating expense.* Administrative and operating expenses increased by $1.5 million or 38.6% for the fiscal year ended April 30, 2005, as compared to fiscal year 2004. Of this increase in administrative and operating expense for the fiscal year ended April 30, 2005, $1.0 million or 70.1% was due to employee related costs. During fiscal year 2005, we hired seven new employees. The addition of these new employees, together with increases in the wages and benefits paid to existing employees, accounted for a significant portion of the increase in administrative and operating costs for the fiscal year ended April 30, 2005. In addition, in common with other public companies, we experienced a significant increase in accounting fees and other costs, primarily as a result of certain provisions of the Sarbanes-Oxley Act of 2002 ("Sarbanes-Oxley"), in particular the internal controls report and attestation requirements of Section 404 of Sarbanes-Oxley.

• *Increase in mortgage interest expense.* Our mortgage debt increased $75.4 million or 11.9% for the fiscal year ended April 30, 2005. Our mortgage interest expense increased by $6.4 million or 16.2% for the fiscal year ended April 30, 2005, as compared to fiscal year 2004. Of the increased interest expense for the fiscal year ended April 30, 2005, $6.9 million or 106.3% was attributable to the addition of new real estate, while interest expenses on existing real estate assets decreased by $(0.4) million or (6.3)%, due primarily to lower interest rates on mortgages.

• *Increase in amortization expense*. In accordance with SFAS No. 141, "Business Combinations," which establishes standards for valuing in-place leases in purchase transactions, the Company allocates a portion of the purchase price paid for properties to in-place lease intangible assets. The amortization period of these intangible assets is the term of the lease, rather than the estimated life of the building and improvements. The Company accordingly initially records additional amortization expense due to this shorter amortization period, which has the effect in the short term of decreasing the Company's net income available to common shareholders.

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Comparison of Results from Commercial and Residential Properties

The following table presents an analysis of the relative investment in, and financial contribution of, our commercial and multi-family residential properties over the past three fiscal years:

Fiscal Years Ended April 30	***(in thousands)*** **2006**	**%**	***(in thousands)*** **2005**	**%**	***(in thousands)*** **2004**	**%**
Real Estate Investments - *net of accumulated depreciation*						
Multi-Family Residential	$ 373,101	33.3%				