

INVESTORS REAL ESTATE TRUST

Form S-3/A

April 22, 2002

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As filed with the Securities and Exchange Commission on April 22, 2002

Registration No. 333-85930

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**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

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**Amendment No. 1**

**to**

**Form S-3**

**REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933**

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**Investors Real Estate Trust**

*Exact name of issuer as specified in its charter*

**North Dakota**

*(State or other jurisdiction of  
incorporation or organization)*

**45-0311232**

*(I.R.S. Employer Identification No.)*

**12 South Main Street, Suite 100**

**Minot, ND 58701**

**(701) 837-4738**

*(Address, Including Zip Code, and Telephone Number, Including Area Code,  
of Registrant's Principal Executive Offices)*

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**Thomas A. Wentz, Jr.**

**Vice President and General Counsel**

**12 South Main Street, Suite 100**

**Minot, ND 58701**

**(701) 837-4738**

*(Name, Address, Including Zip Code, and Telephone Number,  
Including Area Code, of Agent for Service)*

***Copies to:***

**Joseph T. Kinning, Esq.**

**Amy E. Dahl, Esq.**

**Gray, Plant, Mooty, Mooty & Bennett, P.A.**

**33 South Sixth Street**

**3400 City Center**

**Minneapolis, Minnesota 55402**

**(612) 343-2800**

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**Approximate date of commencement of proposed sale to the public:** As soon as practicable after the effective date of this Registration Statement.

If the only securities being registered on this form are being offered pursuant to dividend or interest reinvestment plans, please check the following box.

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If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box.

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of earlier effective registration statement for same offering.

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for same offering.

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box.

### CALCULATION OF REGISTRATION FEE

| Title of securities to be registered        | Amount to be registered | Proposed maximum offering price | Proposed maximum aggregate offering price | Amount of registration fee |
|---|-------------------------|---------------------------------|---|----------------------------|
| Shares of Beneficial Interest, no par value | 3,600,000 shares        | \$9.50(1)                       | \$34,200,000(1)                           | \$3,147(1)                 |

(1) \$2,962 of the registration fee was previously paid in connection with our initial Registration Statement on Form S-3 filed with the Securities Exchange Commission on April 9, 2002.

**The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant files a further amendment which specifically states that this Registration Statement will thereafter become effective in accordance with Section 8(a) of the Securities Act, or until the Registration Statement becomes effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.**

Information contained herein is subject to completion or amendment. A registration statement relating to these securities has been filed with the Securities and Exchange Commission. These securities may not be sold nor may offers to buy be accepted prior to the time the registration statement becomes effective. This prospectus shall not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any State in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such State.

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PROSPECTUS

**Investors Real Estate Trust****3,600,000 Shares of Beneficial Interest**

Investors Real Estate Trust is a self-advised real estate investment trust ( REIT ) that is engaged in acquiring, owning and leasing multi-family and commercial real estate. This prospectus relates to the public offering, which is not being underwritten, of up to 3,600,000 shares of beneficial interest, no par value, at an offering price of \$9.50 per share and an aggregate public offering price of \$34,200,000. Our shares of beneficial interest ( Shares ) are the functional equivalent of common stock, having the rights and preferences normally associated with common stock. Our Shares are traded on the NASDAQ National Market under the symbol IRETS. On April , 2002, the last reported sale price of our Shares, as reported on the NASDAQ National Market, was \$ per share.

**See Risk Factors Beginning on Page 9 of this Prospectus for a Description of the Risks that Should be Considered by Purchasers of the Shares.**

The Shares are being offered on a best-efforts basis by broker-dealers who have signed a sales agreement with us and who are registered with the National Association of Securities Dealers ( NASD ). The broker-dealers are not required to sell a specific number or dollar amount of Shares. The broker-dealers will be paid a seven percent commission per share sold. Any money received from purchasers of Shares will go immediately to us and will not be placed in escrow or trust. This offering will end when all of the Shares have been sold or when we elect to terminate the offering, whichever occurs first.

|                                | <u>Per Share</u> | <u>Total if all<br/>shares sold</u> | <u>Percentage</u> |
|--------------------------------|------------------|-------------------------------------|-------------------|
| Public Offering Price          | \$9.50           | \$ 34,200,000                       | 100%              |
| Less Selling Commission        | \$0.67           | \$ 2,412,000                        | 7%                |
| Proceeds to Us Before Expenses | \$8.83           | \$31,788,000                        | 93%               |

After the payment of all sales commissions, fees and expenses associated with this offering, and assuming all Shares are sold, we will receive approximately \$31,666,318 or 92.6% of the sale proceeds.

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.**

The date of this prospectus is April , 2002.

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**SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS**

Certain statements included in this prospectus and the documents incorporated into this prospectus by reference are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Such forward-looking statements include statements about our intention to invest in properties that we believe will increase in income and value; our belief that the real estate markets in which we invest will continue to perform well; 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, anticipate, potential, may, will, designed, estimate, should, continue and other similar expressions. These statements indicate that our 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 hold investments, specifically 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;

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 Shares;

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

timely completion and lease-up of properties under construction;

competition;

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

other risks identified in this prospectus and from time to time in the reports that we file with the Securities and Exchange Commission or otherwise publicly disseminate.

In light of these uncertainties, the events anticipated by our forward-looking statements might not occur. We undertake no obligation to update or revise our forward-looking statements, whether as a result of new information, future events or otherwise.

**WHERE YOU CAN FIND MORE INFORMATION**

We file annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission. You may read and copy any document we file at the Securities and Exchange Commission's public reference rooms at 450 Fifth Street, N.W., Washington, D.C., 20549, and in New York, New York and Chicago, Illinois. Please call the Securities and Exchange Commission at 1-800-SEC-0330 for further information on the public reference rooms. Our Securities and Exchange Commission filings are also available to the public at the Securities and Exchange Commission's web site at <http://www.sec.gov> and our web site at <http://www.irets.com>. Information on our website does not constitute part of this prospectus. The Exchange Act filing number for IRET is 0-14851.

The Securities and Exchange Commission allows us to incorporate by reference the information we file with them, which means that we can disclose important information to you by referring you to those documents. The information incorporated by reference is considered to be part of this prospectus, and later information filed with the Securities and Exchange Commission will update and supersede this information. We incorporate by reference the documents listed below, and any future filings made with the Securities and



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Exchange Commission under Section 13(a), 13(c), 14 or 15(d) of the Exchange Act until our offering is completed.

The Company's Annual Report on Form 10-K for the year ended April 30, 2001 (as amended by Amendment No. 1, filed with the Securities and Exchange Commission on August 3, 2001);

The Company's Quarterly Report on Form 10-Q for the quarter ended July 31, 2001;

The Company's Quarterly Report on Form 10-Q for the quarter ended October 31, 2001;

The Company's Quarterly Report on Form 10-Q for the quarter ended January 31, 2002 (as amended by Amendment No. 1, filed with the Securities and Exchange Commission on March 21, 2002);

The Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on January 17, 2002 (as amended by Amendment No. 1, filed with the Securities and Exchange Commission on March 15, 2002);

The description of the Company's shares of beneficial interest is contained in the Company's Registration Statement on Form 10 (File No. 0-14851), dated July 29, 1986, as amended by the Amended Registration Statement on Form 10, dated December 17, 1986, and the Second Amended Registration Statement on Form 10, dated March 12, 1987.

You may request a copy of these filings, at no cost, by writing or calling us at the following address and telephone number:

Timothy P. Mihalick

Investors Real Estate Trust  
12 South Main Street, Suite 100  
Minot, N.D. 58701  
(701) 837-4738

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**PROSPECTUS SUMMARY**

*This summary highlights information contained elsewhere in this prospectus and may not contain all of the information that you should consider before deciding to invest in our Shares. You should read this summary together with the more detailed information appearing elsewhere in this prospectus or incorporated by reference into this prospectus, including the section entitled Risk Factors and our consolidated financial statement and the related notes. Please note that certain statements included in this summary constitute forward-looking statements, as described above. Unless the context otherwise requires, references to the terms we, our, us, the Company and IRET refer to Investors Real Estate Trust and its consolidated subsidiaries.*

**IRET**

Investors Real Estate Trust is a self-administered, self-managed equity real estate investment trust ( REIT ). Our business consists of owning and operating income-producing real properties. We are structured as an umbrella partnership real estate investment trust ( UPREIT ) and we conduct our day-to-day business operations through our operating partnership, IRET Properties, a North Dakota Limited Partnership. We have fundamental strategies of focusing our real estate investments in the upper Midwest, primarily in Minnesota, North Dakota, South Dakota, Montana and Nebraska, and of diversifying our investments between multi-family residential and commercial properties. For the nine months ended January 31, 2002, our real estate investments in the states listed above accounted for 78% of our total gross revenue.

Our 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, adhering to targeted returns in acquiring properties and regularly increasing funds from operations and dividend rates. We have increased our dividend every year since our inception 31 years ago and every quarter since 1988.

We seek to diversify our investments between multi-family residential and commercial properties. As of January 31, 2002, our real estate portfolio consisted of:

59 multi-family residential properties, containing 8,236 apartment units and having a total asset value (less accumulated depreciation) of \$343.4 million; and

64 commercial properties, containing 3,123,849 square feet of leasable space and having a total asset value (less accumulated depreciation) of \$261.2 million.

Typically, we attempt to concentrate our multi-family residential properties in communities with populations of approximately 35,000 to 500,000 and we attempt to concentrate our commercial holdings in metropolitan areas with populations of approximately 100,000 to 3.0 million. Our multi-family residential properties include apartment buildings, complexes and communities. Our commercial properties include office buildings, warehouse and industrial facilities, medical office and health care facilities and retail stores and centers. As of January 31, 2002, no single tenant accounted for more than 10% of our total commercial rental revenues. At January 31, 2002, the economic occupancy rates on our multi-family residential properties and our commercial properties were 93.7% and 98.4%, respectively. Our average economic occupancy rates for stabilized properties for the nine-month period ended January 31, 2002, were 94.8% for multi-family residential properties and 98.9% for commercial properties. Economic occupancy rates are calculated by dividing the rent collected by the rent scheduled.

During the past three fiscal years ending April 30, we acquired 31 multi-family residential properties, consisting of 2,686 units, for a total cost of \$176.7 million, and 39 commercial properties, with 1.8 million square feet of space, for a total cost of \$184 million. Within the past 21 months, approximately 76% of our property acquisitions have been commercial properties due to the greater availability of these properties on terms that meet our financial and strategic objectives. If current market conditions continue, we anticipate that the percentage of commercial properties could equal or exceed the percentage of multi-family residential properties during Fiscal 2003. This may not, however, be a long-term trend as in future periods we may purchase a greater percentage of multi-family residential properties depending on market conditions.

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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 70% of the acquisition cost. In appropriate circumstances, we also may acquire one or more properties in exchange for equity securities or limited partnership units of IRET Properties, which are convertible into Shares on a one-to-one basis after the expiration of a minimum one-year holding period. Subject to our continued ability to raise equity capital and exchange limited partnership units, we anticipate acquiring \$100 million to \$200 million of real estate assets on an annual basis.

We contract with locally based third-party management companies to handle all onsite management duties necessary for the proper operation of our properties. All of our management contracts provide for compensation ranging from 2.8 to five percent of gross rent collections and may be terminated by us in 60 days or less by providing written notice of termination. 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 location in which we operate.

We operate in a manner intended to enable us to qualify as a REIT under the Internal Revenue Code. In accordance with the Code, a REIT that distributes its capital gain and at least 90% of its taxable income to its shareholders each year, and which meets certain other conditions, will not be taxed on the portion of taxable income that is distributed to shareholders.

**Our Principal Executive Office**

Our principal executive office is located at 12 South Main, Suite 100, Minot, North Dakota, 58701. Our telephone number is (701) 837-4738. We maintain a website at [www.irets.com](http://www.irets.com). Information on our website does not constitute part of this prospectus.

**Table of Contents****Summary Operating Data Fiscal Years Ended April 30, 2001, 2000 and 1999.**

In the table below, we are providing our summary financial and operating data for the fiscal years ended April 30, 2001, 2000 and 1999. The financial information for each of these years has been derived from our audited financial statements. You should read the following financial information in conjunction with our consolidated financial statements, and the related notes thereto, that are included in this prospectus on pages F-18 through F-55 and the financial information incorporated by reference in this prospectus.

|  | <b>Fiscal Year Ended April 30</b> |                     |                     |
|--|-----------------------------------|---------------------|---------------------|
|  | <b>2001</b>                       | <b>2000</b>         | <b>1999</b>         |
| <b>CONSOLIDATED INCOME STATEMENT DATA:</b>                   |                                   |                     |                     |
| Revenue  | \$ 75,767,150                     | \$ 55,445,193       | \$ 39,927,262       |
| Income before gain/loss on properties and minority interest  | 10,187,812                        | 8,548,558           | 6,401,676           |
| Gain on repossession/sale of properties                      | 601,605                           | 1,754,496           | 1,947,184           |
| Minority interest of portion of operating partnership income | (2,095,177)                       | (1,495,209)         | (744,725)           |
| Net income   | <u>\$ 8,694,240</u>               | <u>\$ 8,807,845</u> | <u>\$ 7,604,135</u> |
| <b>CONSOLIDATED BALANCE SHEET DATA:</b>                      |                                   |                     |                     |
| Total real estate investments                                | \$ 548,580,418                    | \$ 418,216,516      | \$ 280,311,442      |
| Total assets   | 570,322,124                       | 432,978,299         | 291,493,311         |
| Shareholders equity  | 118,945,160                       | 109,920,591         | 85,783,294          |
| <b>PER SHARE DATA:</b>                                       |                                   |                     |                     |
| Net Income   | \$ .38                            | \$ .42              | \$ .44              |
| Dividends  | \$ .55                            | \$ .51              | \$ .47              |

|                                | <b>Tax Year Ended December 31</b> |             |             |
|--------------------------------|-----------------------------------|-------------|-------------|
|                                | <b>2001</b>                       | <b>2000</b> | <b>1999</b> |
| <b>TAX STATUS OF DIVIDEND:</b> |                                   |             |             |
| Capital gain                   | 0.00%                             | 0.72%       | 30.25%      |
| Ordinary income                | 65.98%                            | 86.76%      | 69.75%      |
| Return of capital              | 34.02%                            | 12.52%      | 0.00%       |

**Table of Contents****Summary Operating Data-Nine-Months Ended January 31, 2002 and 2001 (Unaudited)**

In the table below, we are providing our summary financial and operating data for the nine-months ended January 31, 2002 and 2001. It is our opinion that the accompanying unaudited condensed consolidated financial statements contain all adjustments (of normal recurring nature) necessary for a fair presentation of the financial statements. The results of operations for the nine-months ended January 31, 2002, are not necessarily indicative of operating results for the entire year.

|   | Nine-Months Ended<br>01/31/02 | Nine-Months Ended<br>01/31/01 |
|---|-------------------------------|-------------------------------|
| <b>REVENUE</b>  |                               |                               |
| Real Estate Rentals*  | \$ 67,742,920                 | \$ 54,127,259                 |
| Interest, Discounts and Fees                                    | 817,987                       | 713,382                       |
| Total Revenue   | <u>\$ 68,560,907</u>          | <u>\$ 54,840,641</u>          |
| <b>OPERATING EXPENSE</b>  |                               |                               |
| Interest  | \$ 22,619,159                 | \$ 18,079,455                 |
| Depreciation  | 11,372,808                    | 8,802,084                     |
| Utilities and Maintenance                                       | 9,162,893                     | 8,234,629                     |
| Taxes   | 6,637,475                     | 5,247,862                     |
| Insurance   | 1,005,564                     | 529,286                       |
| Property Management Expenses                                    | 5,168,144                     | 4,320,100                     |
| Administrative Expense & Trustee Services                       | 1,138,337                     | 1,113,520                     |
| Operating Expenses  | 415,944                       | 265,454                       |
| Amortization  | 403,613                       | 335,491                       |
| Total Expenses  | <u>\$ 57,923,937</u>          | <u>\$ 46,927,881</u>          |
| INCOME BEFORE GAIN/ LOSS ON PROPERTIES AND<br>MINORITY INTEREST | \$ 10,636,970                 | \$ 7,912,760                  |
| GAIN ON SALE OF INVESTMENT                                      | 327,678                       | 25,124                        |
| MINORITY INTEREST OTHER PARTNERSHIP                             | (214,964)                     | 8,775                         |
| MINORITY INTEREST PORTION OF OPERATING<br>PARTNERSHIP INCOME    | <u>(2,787,789)</u>            | <u>(1,390,602)</u>            |
| NET INCOME  | <u>\$ 7,961,895</u>           | <u>\$ 6,556,057</u>           |
| <b>PER SHARE</b>  |                               |                               |
| Net Income Per Share  | \$ 0.32                       | \$ 0.29                       |
| Dividends Paid Per Share  | \$ 0.4425                     | \$ 0.4075                     |
| Average Number of Shares Outstanding                            | <u>24,875,028</u>             | <u>22,932,316</u>             |

\* Includes \$953,616 and \$881,713 for the nine-months ended January 31, 2002 and 2001, respectively, of straight-line rents. Straight-line rents are the amounts to be collected in future years from tenants occupying commercial properties under leases that provide for periodic increases in rents. It is determined by dividing the total rent payable for the lease term by the total rental periods, and allocating the resulting average rent to the period covered by the report.

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**Recent Developments**

**Third Quarter Results**

Our total revenues for the nine-months ended January 31, 2002, were \$68.6 million, as compared to \$54.8 million for the nine-months ended January 31, 2001. This represents an increase of \$13.7 million or approximately 25%. These increases are primarily attributable to the addition of new properties to our investment portfolio.

We consider funds from operations ( FFO ) to be a useful measure of performance for an equity REIT. FFO is defined as net income available to shareholders, as determined in accordance with generally accepted accounting principles ( GAAP ), excluding gains (or losses) from debt restructuring and sales of property, plus depreciation of real estate assets, all after adjustment for unconsolidated partnerships and joint ventures. We use the National Association of Real Estate Investment Trusts ( NAREIT ) definition of FFO, as such definition was as amended by NAREIT to be effective January 1, 2000. FFO for any period means our net income for such period, excluding gains or losses from debt restructuring and sales of property, plus depreciation and amortization of real estate assets in our investment portfolio, all after adjustment for unconsolidated partnerships and joint ventures and all determined on a consistent basis in accordance with GAAP. FFO presented herein is not necessarily comparable to FFO presented by other real estate companies, as not all real estate companies use the same definition. FFO should not be considered as an alternative to net income, as determined in accordance with GAAP, or as a measure of our liquidity. FFO is not necessarily indicative of sufficient cash flow to fund all of our needs or our ability to service indebtedness or make distributions.

Our FFO for the nine-months ended January 31, 2002, increased to \$21.7 million, as compared to \$16.7 million for the nine-months ended January 31, 2001. This represents an increase of approximately 29.9%.

Total capital gain income for the nine-months ended January 31, 2002, was \$327,678, as compared to \$25,124 for the nine-months ended January 31, 2001. This included a gain of \$3,346 from the sale of the Carmen Court Apartment building in Minot, North Dakota, a gain of \$296,409 from the sale of the Sunchase Apartments in Fargo, North Dakota, a gain of \$85,279 from the sale of the Lester Chiropractic building in Bismarck, North Dakota, and a loss of \$57,356 from the sale of marketable securities held to maturity.

**Recent Acquisitions**

*Cottage Grove Strip Center-Cottage Grove, Minnesota.* On July 6, 2001, we acquired the Cottage Grove Strip Center, a 15,217 square foot, single-story, multi-tenant, retail building that was constructed in 1986 and is located at 7155 80th Street South, Cottage Grove, Minnesota, for a purchase price of \$1.1 million. The purchase price was paid with cash in the amount of \$823,594, with the remaining balance of \$276,124 paid for with 31,603.53 limited partnership units of IRET Properties, having a value of \$8.752 per unit. In addition to the purchase price, we incurred acquisition costs of approximately \$1,550. This building is currently 100% leased to eight tenants with remaining lease terms ranging from two to six years. All rents paid by the current tenants are at market rates. No tenant occupies more than 35% of the leasable space.

*Interlachen Corporate Center-Edina, Minnesota.* On August 10, 2001, we acquired the Interlachen Corporate Center, a 105,084 square foot, four-story, office building that was constructed in April 2001 and is located at 5050 Lincoln Drive, Edina, Minnesota, for a purchase price of \$16.5 million. The purchase price was paid in cash. In addition to the purchase price, we incurred acquisition costs of approximately \$191,307 for commissions, loan costs and other closing costs. This building has four levels of office space and one-level of underground parking. This building is currently 95% leased to five tenants with Alliant Techsystems, Inc. (NYSE: ATK), the primary tenant, occupying 75% of the space. Alliant, an aerospace and defense company with leading market positions in propulsion, composite structures, munitions and precision capabilities, has its headquarters in this building. Alliant's lease commenced in May 2001 and runs for a seven-year term.

*Canyon Lake Plaza Apartments-Rapid City, South Dakota.* On September 27, 2001, we acquired the Canyon Lake Plaza Apartments, a four building, 109-unit, multi-family residential property that was constructed in 1972 and is located at 3741 Canyon Lake Drive, Rapid City, South Dakota, for a purchase

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price of \$4.3 million. The purchase price was paid with 83,626.79 limited partnership units of IRET Properties, having a value of \$8.60 per unit. In addition to the purchase price, we incurred acquisition costs of approximately \$72,681 for commissions, loan costs and other closing costs. As of January 31, 2002, the property was 86.8% occupied.

*Bloomington Business Plaza Bloomington, Minnesota.* On October 1, 2001, we acquired the Bloomington Business Plaza, a 114,819 square foot, multi-tenant, office/warehouse building that was constructed in 1985 and is located at 9201 East Bloomington Freeway, Bloomington, Minnesota. This building was acquired pursuant to the terms of a contract dated January 8, 2001, as amended by an agreement dated September 27, 2001, from a general partnership owned by Steven B. Hoyt, a member of our Board of Trustees. Although Mr. Hoyt was a member of our Board of Trustees at the time of the acquisition, Mr. Hoyt was not a member of our Board of Trustees at the time the original acquisition contract was signed.

This building was acquired for a purchase price of \$7.2 million. The purchase price was paid with cash in the amount of \$215,000, with the remaining balance of \$7.0 million paid for with 812,404.65 limited partnership units of IRET Properties, having a value of \$8.60 per unit. In addition to the purchase price, we incurred acquisition costs of \$203,989 for commissions, loan costs and legal costs. The acquisition of this building was approved by a majority of the members of our Board of Trustees, based on an independent appraisal of the property that determined the value of the property to be \$7.0 million.

This building is currently 100% leased to 21 tenants, with remaining lease terms ranging from five months to approximately five years. All rents paid by the current tenants are at market rates, and no single tenant occupies more than 17.1% of the leasable space.

*Applewood on the Green Apartments Omaha, Nebraska.* On October 31, 2001, we acquired the Applewood on the Green Apartments, a thirteen building, 87,200 square foot, 234-unit multi-family residential property that was constructed in 1971 and is located at 9670 Berry Plaza, Omaha, Nebraska, for a purchase price of \$10.4 million. The purchase price was paid with cash in the amount of \$2.6 million, with the balance paid by the assumption of existing debt with an unpaid principal balance of \$7.7 million. This assumed debt is secured by the property, bears interest at a fixed rate of 6.55% and is payable in monthly installments of \$51,334 amortized over a remaining term of seven years, with a balloon payment of all remaining principal and interest due on October 8, 2008. In addition to the purchase price, we incurred acquisition costs of \$164,745 for commissions, loan costs and legal costs. As of January 31, 2002, the property was 57.2% occupied.

*Stone Container Distribution Center and Plant Roseville, Minnesota.* On December 14, 2001, we acquired the Stone Container Distribution Center and Plant, a 229,072 square foot single-story manufacturing and distribution facility that was constructed in 1968, with additions being completed in 1969, 1973 and 1984, and is located at 3075 Long Lake Road, Roseville, Minnesota, for a purchase price of \$8.1 million. The purchase price was paid with cash in the amount of \$4.9 million, with the remaining balance of \$3.2 million paid for with 363,977 limited partnership units of IRET Properties, having a value of \$8.81 per unit. In addition to the purchase price, we incurred acquisition costs of \$110,834 for commissions and legal costs. This property is 100% leased to Stone Container Corporation until December 21, 2010.

*Thresher Square Minneapolis, Minnesota.* On January 2, 2002, we acquired a 113,736 square foot, seven-story multi-tenant office building that was constructed around 1900 and is located at 700 and 708 South Third Street, Minneapolis, Minnesota. This building was acquired from WPT I, L.L.C., a limited liability company that is 78% owned by Mr. Hoyt. Although Mr. Hoyt was a member of our Board of Trustees at the time of the acquisition, Mr. Hoyt was not a member of our Board of Trustees at the time that the letter of intent was signed.

This building was acquired for a purchase price of \$10.9 million. The purchase price was paid, in part, by the assumption of two existing loans with unpaid principal balances, as of January 1, 2002, of \$3.7 million and \$2.6 million, respectively. The remaining \$4.4 million balance was paid for with 507,651 limited partnership units of IRET Properties, having a value of \$8.60 per unit. The loans bear interest at the rate of 7.03% and 7.37%, respectively, and are payable in monthly installments of \$34,582 and \$33,270, respectively, amortized over a remaining terms of 14 and nine years, respectively. In addition to the purchase price, we incurred acquisition costs of approximately \$168,575 for commissions and legal costs.

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All of the members of our Board of Trustees, other than Mr. Hoyt, who abstained from the vote, approved the transaction as being fair and reasonable to us. Additionally, the members of our Board of Trustees, other than Mr. Hoyt, determined that substantial justification existed for us to pay a value greater than the cost of the property to the seller. Although we did not obtain an independent appraisal of the property, we did prepare an internal current appraisal of the property that determined the value of the property to be \$10.9 million.

The property is currently 100% leased to eight different tenants, with remaining lease terms of approximately one month to seven years. No tenant occupies more than 53% of the leasable space.

*Pinehurst Apartments Billings, Montana.* On February 28, 2002, we acquired the Pinehurst Apartments, a two building, 23 unit, multi-family residential property that was constructed in 1986 and is located at 608 North Thirteenth Street, Billings, Montana, for a purchase price of \$715,000. The purchase price was paid with cash in the amount of \$424,010, with the balance of \$290,990 paid with limited partnership units of IRET Properties, having a value of \$9.74 per unit. In addition to the purchase price, we incurred acquisition costs of \$36,310 for commissions and other closing costs. This property is currently 100% leased.

*Wirth Corporate Center Golden Valley, Minnesota.* On April 1, 2002, we acquired a 89,384 square foot, four-story office building that was constructed in 1990 and is located at 4101 Dahlberg Drive, Golden Valley, Minnesota, for a purchase price of \$8.6 million. The purchase price was paid in cash. In addition to the purchase price, we incurred acquisition costs of approximately \$56,481 for title insurance, environmental studies, loan costs and legal costs. This building was acquired from Mr. Hoyt. All of the members of our Board of Trustees, other than Mr. Hoyt, who abstained from the vote, approved the transaction as being fair and reasonable to us. The purchase price was based on an appraisal from an independent third-party who determined the value of the property to be \$8.6 million. The property is currently 100% leased to six different tenants, with remaining lease terms of approximately two to five years. No tenant occupies more than 34% of the leasable space.

*Minnetonka Corporate Center Minnetonka, Minnesota.* On April 1, 2002, we acquired 64,984 square foot, single-story office building that was constructed in 1986 and is located at 12400 Whitewater Drive, Minnetonka, Minnesota, for a purchase price of \$5.4 million. The purchase price was paid with cash in the amount of \$1.7 million, with the balance paid by the assumption of existing debt with an unpaid principal balance of \$3.6 million. This assumed debt is secured by the property, bears interest at a fixed rate of 6.99% annually and is payable in monthly installments of \$28,664, with a balloon payment of all remaining principle and interest due on May 11, 2010. In addition to the purchase price, we incurred acquisition costs of approximately \$47,460 for title insurance, environmental studies, loan costs and other closing costs. The property is currently 100% leased to ten different tenants, with remaining lease terms of approximately one month to five years. No one tenant occupies more than 21% of the leasable space.

**The Offering**

|                                       |   |
|---------------------------------------|---|
| Shares offered by IRET                | 3,600,000 Shares  |
| Shares outstanding after the offering | 31,139,584  |
| Use of proceeds                       | For general business purposes, including the acquisition, development, renovation, expansion or improvement of income-producing properties. |
| NASDAQ National Market symbol         | IRETS   |

\* The number of Shares outstanding after the offering does not include 9,277,836 Shares issuable upon conversion of limited partnership units. Limited partnership units are convertible into Shares on a one-to-one basis after the expiration of a minimum one-year holding period.

The number of Shares outstanding after the offering assumes that all 3,600,000 Shares offered will be sold. Since the offering is being handled on a best-efforts basis there is no guarantee that any Shares will be sold.

**Table of Contents****Price Range of Common Shares and Distributions**

The following sets forth the high and low sale prices for our Shares as reported by the NASDAQ SmallCap Market for the period of May 1, 1999 through April 8, 2002, and as reported by the NASDAQ National Market for the period of April 9, 2002 through April 18, 2002, and the distributions we paid with respect to each period.

|   | <u>High</u> | <u>Low</u> | <u>Distribution<br/>per Share</u> |
|---|-------------|------------|-----------------------------------|
| <b>Fiscal 2000</b>                                  |             |            |                                   |
| First Quarter ending July 31, 1999                  | \$ 17.88    | \$ 7.06    | \$ 0.1240                         |
| Second Quarter ending October 31, 1999              | 10.50       | 7.06       | 0.1260                            |
| Third Quarter ending January 31, 2000               | 8.38        | 7.25       | 0.1280                            |
| Fourth Quarter ending April 30, 2000                | 8.13        | 7.13       | 0.1300                            |
| <b>Fiscal 2001</b>                                  |             |            |                                   |
| First Quarter ending July 31, 2000                  | \$ 8.13     | \$ 7.38    | \$ 0.1325                         |
| Second Quarter ending October 31, 2000              | 8.25        | 7.59       | 0.1350                            |
| Third Quarter ending January 31, 2001               | 8.50        | 7.44       | 0.1400                            |
| Fourth Quarter ending April 30, 2001                | 8.98        | 8.00       | 0.1425                            |
| <b>Fiscal 2002</b>                                  |             |            |                                   |
| First Quarter ending July 31, 2001                  | \$ 10.49    | \$ 8.25    | \$ 0.1450                         |
| Second Quarter ending October 31, 2001              | 9.43        | 8.80       | 0.1475                            |
| Third Quarter ending January 31, 2002               | 10.00       | 9.00       | 0.1500                            |
| Fourth Quarter (February 1, 2002 - April 18, 2002*) | 10.45       | 9.51       | 0.1520**                          |

\* The most recent practicable date prior to the filing of this prospectus with the Securities and Exchange Commission.

\*\* On April 1, 2002, our Board of Trustees paid a quarterly dividend of \$.152 per share to shareholders of record as of the close of business on March 15, 2002.



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**RISK FACTORS**

*In addition to the other information contained or incorporated by reference in this prospectus, prospective investors should consider carefully the following factors when evaluating an investment in the Shares offered by this prospectus. Please note that certain statements included in this summary constitute forward-looking statements, as described above.*

**Risks Related to This Offering and the Purchase of Shares**

*The Price of the Shares May Be Higher than the NASDAQ Price.* The \$9.50 price is higher than the price paid by most of the current holders of our Shares. The \$9.50 price may be higher than the price at which our Shares trade on the NASDAQ National Market. As a result, before buying Shares pursuant to this offer, you should check to determine whether you might be able to buy the same number of Shares on the NASDAQ National Market for a lower price. See also *Determination of Offering Price* on Page 17 of this prospectus.

*The Price of the Shares Exceeds the Book Value of the Shares.* The book value of our Shares is substantially less than the \$9.50 price. As of January 31, 2002, the book value of the 27,539,584 Shares then outstanding was \$5.26 per share. Assuming all of the Shares registered under this offering are sold, the estimated resulting book value will be \$5.66 per share. Thus, a purchasing shareholder paying \$9.50 per share will incur an immediate book value dilution of \$3.84 per share.

*Low Trading Volume on the NASDAQ National Market May Prevent the Timely Resale of Shares.* No assurance can be given that a purchaser of Shares in this offering will be able to resell such Shares when desired. Our Shares were traded on the NASDAQ SmallCap Market from October 17, 1997 to April 8, 2002, and are currently traded on the NASDAQ National Market. The average daily trading volume for the period of May 1, 2001 through April 17, 2002 was 29,094 Shares and the average monthly trading volume for the period of May 2001 through March 2002 was 581,409 Shares. As a result of this trading volume, an owner of our Shares may encounter difficulty in selling such Shares in a timely manner and may incur a substantial loss.

**Risks Related to Our Properties and Business**

*Our Geographic Concentration in North Dakota and Minnesota May Result in Losses.* The majority of our assets are presently invested in real estate properties in North Dakota and Minnesota. As a result of this concentration, we may be subject to substantially greater risk than if our investments were more geographically dispersed. Specifically, changes in local conditions, such as building by competitors or a decrease in employment, may adversely affect the performance of our investments much more severely.

For the nine month period ended January 31, 2002, we received 56% of our commercial gross revenue from commercial properties in Minnesota and 19% of our commercial gross revenue from commercial properties in North Dakota. Minnesota accounts for 64% of our commercial real estate portfolio by square footage, while North Dakota accounts for 22%.

For the nine month period ended January 31, 2002, we received 17% of our apartment gross revenue from multi-family residential properties in Minnesota and 19% of our apartment gross revenue from multi-family properties in North Dakota. As of that same date, we owned 1,309 apartment units, 16% of our total number of apartment units, in Minnesota, and 3,036 apartment units, 37% of our total number of apartment units, in North Dakota.

The economic climate in Minnesota is highly dependent on the service, manufacturing and high technology industries. Since 77% of our assets in Minnesota are commercial properties, economic weakening in any of these industries may adversely affect the performance of our real estate portfolio by decreasing demand for rental space.

In contrast, the North Dakota economy is dependent on the agricultural and mineral development industries. Both of these industries have been depressed for most of the past decade and, in our opinion, there appears little prospect for improvement. While the North Dakota unemployment rate is below four percent the state has experienced almost zero population growth during the last decade, and currently has a high concentration of people over the age of 65. Also during the past decade, the population located in the rural

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areas declined significantly, while that of cities and towns with populations over 15,000 increased on average by five percent. This increase was due to the rural population moving to cities such as Fargo, Bismarck, Grand Forks, Minot, Jamestown, Dickinson, Williston and Devils Lake. Over 90% of our assets in North Dakota are located in these cities. We anticipate that the population will continue to shift, and likely decline, in the next decade.

Unlike Minnesota, 70% of our assets in North Dakota are multi-family residential properties, which are dependent on a stable or growing population. If North Dakota's population declines, we may experience difficulty in renting our properties at acceptable rates. This would result in a decrease in net income and a corresponding decline in the level of distributions to our shareholders.

*Current and Future Vacancies May Negatively Impact Earnings.* In the twelve months subsequent to January 31, 2002, leases covering approximately 7.1% of our total commercial square footage will expire. At January 31, 2002, approximately 2.9% of our total commercial square footage was vacant. Of that vacancy, approximately 76% is represented by the warehouse in Boise, Idaho, which has been vacant for the last 20 months. As a result, in the event we are unable to rent or sell those properties that are vacant or affected by expiring leases, approximately ten percent of our total commercial square footage will be vacant. Even greater vacancies will be created to the extent that a number of tenants, or any one significant tenant, files for bankruptcy protection and rejects our lease. Such vacancies may negatively impact our earnings, may result in lower distributions to our shareholders and may cause a decline in the value of our real estate portfolio.

While it is difficult to clearly identify those specific properties that may not produce sufficient returns, we currently have two commercial properties that potentially fall into such category. Those properties are the warehouse in Boise, Idaho and the Carmike Cinema building Grand Forks, North Dakota. The Boise warehouse is vacant and, therefore, is not currently producing any income. We continue to pay all expenses associated with the property, which are expected to be approximately \$500,000 over the next 12 months.

The tenant of the Carmike Cinema building is currently in Chapter 11 bankruptcy. All rent has been paid to date and the tenant has affirmed its lease in its bankruptcy proceeding. In the event that the tenant does not successfully complete its Chapter 11 reorganization, however, the lease could be rejected or the tenant could default on its obligations. Either event would cause us to incur a decline in net income, as we currently receive \$278,512 in rent annually from this tenant, which represents less than one percent of our Fiscal 2001 gross revenues.

At January 31, 2002, approximately 6.3% of the units in our multi-family residential properties were vacant. Multi-family residential vacancies could increase from current levels due to general economic conditions, local economic or competitive conditions, unsatisfactory property management, the physical condition of our properties or other factors. An increase in vacancies in our multi-family residential properties may negatively impact our earnings, may result in lower distributions to our shareholders and may cause a decline in the value of our real estate portfolio.

*Our Increasing Ownership of Commercial Properties Subjects Us To Different Risks Than Our Traditional Base of Multi-family Residential Properties.* Historically, the assets in our investment portfolio consisted predominantly of multi-family residential properties, as compared to commercial properties. More recently, our investment activities have caused this balance to shift so that the percentage of commercial properties held in our portfolio has increased significantly. Within the past 21 months, approximately 76% of our property acquisitions have been commercial properties due to the greater availability of these properties on terms that meet our financial and strategic objectives. If current market conditions continue, we anticipate that the percentage of commercial properties could equal or exceed the percentage of multi-family residential properties during Fiscal 2003. This may not, however, be a long-term trend as in future periods we may purchase a greater percentage of multi-family residential properties depending on market conditions.

Our historical experience in acquiring multi-family residential properties may not be directly applicable to the acquisition of a greater percentage of commercial properties. Commercial properties involve different risks than multi-family residential properties, including: direct exposure to business and economic downturns; exposure to tenant lease terminations or bankruptcies; and competition from real estate investors with greater

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experience in developing and owning commercial properties. Our earnings may be negatively affected if we are not successful in acquiring or managing commercial properties.

*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, such 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 build-outs. 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. Such events may have a material adverse effect on us, our ability to make distributions to our shareholders and our ability to pay amounts due on our debt.

There are also thousands of private limited partnerships organized to invest in real estate. As such, we must compete with these entities for investments. The yields available on mortgage and other real estate investments depend upon many factors, including, the supply of money available for such investments and the demand for mortgage money. The presence of these competitors increases the price for real estate assets and the available supply of funds to our prospective borrowers. All these factors, in turn, vary in relation to many other factors, such as: general and local economic conditions; conditions in the construction industry; opportunities for other types of investments; and international, national and local political affairs, legislation, governmental regulation, tax laws and other factors. We cannot predict the effect that such factors will have on our operations.

*Our Inability to Effectively Manage Our Rapid Growth May Adversely Affect Our Operating Results.* Our total assets have increased from \$225 million at April 30, 1998, to \$655.8 million at January 31, 2002, principally through the acquisition of additional real estate properties. Subject to our continued ability to raise equity capital and exchange limited partnership units, we anticipate acquiring \$100.0 million to \$200.0 million or real estate assets on an annual basis. Effective management of growth presents various challenges, including: the expansion of our management team and staff, diverted management attention, the enhancement of internal operating systems and controls, increased reliance on outside advisors and property managers and the ability to consistently achieve targeted returns. If we are unable to effectively manage our growth, our operating results may be adversely affected.

*Our Inability to Continue to Make Accretive Property Acquisitions May Adversely Affect Our Ability to Increase Our Operating Income.* From Fiscal 1998 to Fiscal 2001, we increased our operating income from \$6.0 million to \$12.3 million. Most of this growth was attributable to the acquisition of additional real estate properties. If we are unable to continue to make real estate acquisitions on terms that meet our financial and strategic objectives, whether due to 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 Individual Properties or Our Overall Portfolio May Result in Losses.* We seek to borrow approximately 70% of the cost of real estate purchased or constructed. The 70% per property borrowing limitation is a policy that has been established by management and approved by our Board of Trustees and may be changed at any time, or from time to time, without notice to, or the approval of, our shareholders. For the past three years ended April 30, our total mortgage indebtedness, as it relates to our total real estate assets at book value before depreciation, has been as follows:

|                     | Fiscal 2001   | Fiscal 2000   | Fiscal 1999   |
|---------------------|---------------|---------------|---------------|
| Real Estate Assets  | \$591,636,468 | \$449,919,890 | \$295,825,839 |
| Mortgages Payable   | \$368,956,930 | \$265,056,767 | \$175,071,069 |
| Leverage Percentage | 62.4%         | 58.9%         | 59.2%         |

In addition to the policy of not exceeding an overall 70% debt ratio on all real estate, our Second Restated Declaration of Trust provides that our total borrowings, secured and unsecured, must be reasonable in relation to our total net assets and reviewed by our Board of Trustees at least quarterly. The maximum borrowings in relation to the net assets, in the absence of a satisfactory showing that a higher level of borrowing is

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appropriate, may not exceed 300% of net assets in the aggregate. Currently, our ratio of total indebtedness, as it relates to our total net assets, is 200%. As a result, we may, without any additional approval, increase our total indebtedness, as compared to total net assets, by 100% or \$218.5 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 our shareholders in the next quarterly report, along with justification for such excess. In no event are we required to obtain the approval of our shareholders to increase our debt level.

For the past three years ended April 30, our total indebtedness, as it relates to our total net assets, has been as follows:

|                     | Fiscal 2001    | Fiscal 2000    | Fiscal 1999    |
|---------------------|----------------|----------------|----------------|
| Total Net Assets    | \$ 177,948,354 | \$ 145,038,261 | \$ 100,263,836 |
| Total debt          | \$ 389,086,105 | \$ 287,940,038 | \$ 191,229,475 |
| Leverage percentage | 218.7%         | 198.5%         | 190.7%         |

This amount of leverage may expose us to cash flow problems in the event rental income decreases. Such a scenario may have an adverse effect on us to the extent that we must sell properties at a loss, we are unable to make distributions to our shareholders or we are unable to pay amounts due, which may result in a default on our obligations and the loss of the property through foreclosure.

*The Cost of Our Indebtedness May Increase and the Market Value of Our Shares May Decrease Due to Rising Interest Rates.* We have incurred, and we expect to continue to incur, indebtedness that bears interest at a variable rate. Accordingly, increases in interest rates will increase our interest costs, which could have a material adverse effect on us, our ability to make distributions to our shareholders and our ability to pay amounts due on our debt.

As of January 31, 2002, \$22.2 million, or 5.5%, of the total mortgage indebtedness was subject to variable interest rate agreements. The range of interest rates on the variable rate mortgages are from 4.75% to 8.35%. An increase of one percent in our variable interest rate would collectively increase our interest payments by \$222,083 annually.

In addition, an increase in market interest rates may cause shareholders to demand a higher yield on their Shares from distributions by us, which could adversely affect the market price for our Shares.

*We May Not Be Able to Renew, Repay or Refinance Our Debt.* 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; the risk that indebtedness on our properties, or unsecured indebtedness, will not be able to be renewed, repaid or refinanced when due; or that the terms of any renewal or refinancing will not be available on terms as favorable as the terms of our current indebtedness. In the event that we are unable to refinance our indebtedness on acceptable terms, or at all, we may be forced to dispose of one or more of the properties on disadvantageous terms, which may result in losses to us. Such losses could have a material adverse effect on us, our ability to make distributions to our shareholders and our ability to pay amounts due on our debt. 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 Code.

The balance of our indebtedness in individual mortgage loans secured by individual commercial and residential properties totaled \$403.9 million as of January 31, 2002. Of this amount, \$22.2 million is subject to variable interest rate agreements and \$381.7 million is in fixed rates mortgages. Of the outstanding mortgages, both fixed and variable, no amounts will come due during the balance of Fiscal 2002, \$7.4 million will come due during Fiscal 2003, \$4.6 million will come due during Fiscal 2004 and the remaining balance will come due in later years.

*Our Mortgage Lending Activities May Result in Losses.* For the nine-months ended January 31, 2002, we had mortgages outstanding, less unearned discounts, deferred gain from property dispositions and allowance for losses, in the aggregate amount of approximately \$8.0 million. For the three years ended

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April 30, 2001, 2000 and 1999, we had mortgages outstanding, less unearned discounts, deferred gain from property dispositions and allowance for losses, in the aggregate amounts of \$1.1 million, \$1.5 million and \$10.6 million, respectively. As of January 31, 2002, all of our mortgage loans were current and none of the loans were in default.

All real estate investments are subject to some degree of risk that, in certain cases, vary according to the size of the investment as a percentage of the value of the real property. In the event of a default by a borrower on a mortgage loan, it may be necessary for us to foreclose our mortgage or engage in negotiations that may involve further outlays to protect our investment.

The mortgages securing our loans may, in certain instances, be subordinate to mechanics liens, materialmen's liens or government liens. In connection with junior mortgages, we may be required to make payments in order to maintain the status of the prior lien or to discharge it entirely. We may lose first priority of our lien to mechanics' or materialmen's liens due to wrongful acts of the borrower. It is possible that the total amount that may be recovered by us in such cases may be less than our total investment, which may result in losses to us. The loans that we make may, in certain cases, be subject to statutory restrictions that limit the maximum interest charges and impose penalties, which including the restitution of excess interest. Such statutory restrictions may also, in certain cases, affect enforceability of the debt. There can be no assurance that all, or a portion of, the charges and fees that we receive on our loans will not be held to exceed the statutory maximum, in which case we may be subjected to the penalties imposed by the statutes.

We may change our policies relating to our mortgage lending at any time, and from time to time, without prior notice to, or the approval of, our shareholders.

*We Do Not Carry Insurance Against All Possible Losses.* We carry comprehensive liability, fire, extended coverage and rental loss insurance with respect to our properties. No assurance can be given that such coverage will be available in the future or, if available, that such coverage will be at an acceptable cost or with acceptable terms. Furthermore, no assurance can be given that current or future policies will have limits that will cover the full cost of repair or replacement of covered properties.

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. We do not currently carry environmental insurance. 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 such loss could have a material adverse effect on us, our ability to make distributions to our shareholders and our ability to pay amounts due on our debt.

*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 such increases may adversely affect our cash available for distribution, our ability to make distributions to our shareholders 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 our shareholders and our ability to pay 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 May Affect Our Costs and Investment Strategies.* Certain federal, state and local laws and regulations, including the Americans with Disabilities Act, may require certain modifications to, or restrict certain renovations of, existing buildings to improve access to, or use of, such buildings by disabled persons. Additionally, such laws and regulations may require that certain structural features be added to buildings under construction, which may add to the cost of such buildings. Any legislation or regulations that may be adopted in the future may impose further burdens or restrictions on us

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with respect to improved access to, and use of such buildings by, disabled persons. 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, in certain instances, or reduce overall returns on our investments. This could have a material adverse effect on us, our ability to make distributions to our shareholders and our ability to pay amounts due on our debt.

We review our properties periodically to determine the level of compliance and, if necessary, take appropriate action to bring such properties into compliance. We believe, based on property reviews to date, that the costs of such compliance would not have a material adverse effect on us. Such conclusions are based upon currently available information and data and no assurance can be given that further review and analysis of our properties, or future legal interpretations or legislative changes, will not significantly increase the costs of compliance.

*We May Be Responsible For Potential Liabilities Under Certain Environmental Laws.* Under various federal, state and local laws, ordinances and regulations, a current or previous owner or operator of real estate may be liable for the costs of removal of, or remediation of, certain hazardous or toxic substances in, on, around or under property. Such laws often impose liability without regard to whether the owner or operator knew of, or was responsible for, the presence of such hazardous or toxic substances. The presence of such substances, or the failure to properly remediate any property containing such substances, may adversely affect the owner's or operator's ability to sell or rent the affected property or to borrow using such property as collateral. Persons who arrange for the disposal or treatment of hazardous or toxic substances may also be liable for the costs of removal of, or remediation of, such substances at a disposal or treatment facility, whether or not such facility is owned or operated by such person. Certain environmental laws impose liability for the release of asbestos-containing materials into the air, and third parties may also seek recovery from owners or operators of real properties for personal injury associated with asbestos-containing materials, as well as other hazardous or toxic substances. The operation and subsequent removal of certain underground storage tanks are also regulated by federal and state laws. In connection with the current or former ownership (direct or indirect), operation, management, development and/or control of real properties, we may be considered to be an owner or operator of such properties, or to have arranged for the disposal or treatment of hazardous or toxic substances. As such, we may be potentially liable for removal or remediation costs, as well as certain other costs, including governmental fines and claims for injuries to persons and property.

It is currently our policy to obtain a Phase I environmental study on each property that we seek to acquire. If the Phase I indicates any possible environmental problems, it is our policy is to order a Phase II study, which involves testing the soil and ground water for actual hazardous substances. No assurance can be given that the Phase I or Phase II environmental studies, or any other environmental studies undertaken with respect to any of our current or future properties, will reveal the full extent of potential environmental liabilities, that any prior owner or operator of a property did not create any material environmental condition unknown to us, that a material environmental condition does not otherwise exist as to any one or more of such properties or that environmental matters will not have a material adverse effect on us, our ability to make distributions to our shareholders and our ability to pay amounts due on our debt. We currently do not carry insurance for environmental liabilities.

Certain environmental laws impose liability on a previous owner of property to the extent that hazardous or toxic substances were present during the prior ownership period. A transfer of the property does not relieve an owner of such liability. As a result, in addition to any liability that we may have with respect to our current properties, we may also have liability with respect to properties previously sold by our predecessors or by us. To our knowledge, as of the date of this prospectus, we do not own and we have not sold any properties that contain known material environmental liabilities.

*We May Be Unable to Retain or Attract Qualified Management.* We are dependent upon our officers for essentially all aspects of our business operations. Our officers have experience in the specialized business segment in which we operate and, therefore, the loss of any of our officers would likely have a material adverse

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effect on our operations. Our officers may terminate their relationship with us at any time, without providing advance notice. We currently rely on the following officers:

| Name                 | Position                                 | Age |
|----------------------|--|-----|
| Thomas A. Wentz, Sr. | President & Chief Executive Officer      | 66  |
| Timothy P. Mihalick  | Senior Vice President & Chief Operating  | 42  |
| Thomas A. Wentz, Jr. | Officer Vice President & General Counsel | 35  |
| Diane K. Bryantt     | Secretary & Chief Financial Officer      | 37  |

We do not have employment contracts or agreements with any of our officers, members of our Board of Trustees or other employees. We would incur significant expense in order to recruit and relocate officers to our Minot, North Dakota location.

*Conflicts of Interest May Negatively Impact Our Financial Performance.* The members of our Board of Trustees and our management are subject to certain conflicts of interest that could adversely impact our future performance. Potential conflicts of interest include competition by, or the purchase of services or goods from, members of our Board of Trustees or management.

Certain of the members of our Board of Trustees and certain of our officers either directly, or through entities controlled by them, are currently engaged, and may engage in the future, in other real estate ownership, management or development activities for their own personal accounts that may compete with our activities. Accordingly, certain conflicts of interest may arise with respect to the activities of such entities and persons and our activities that may, in turn, adversely effect our financial performance.

As of January 31, 2002, other than ownership of both our Shares and limited partnership units of IRET Properties, no employee or member of our Board of Trustees has any ownership interest in any of our subsidiaries, real estate projects or business activities. However, without notice to, or the approval of, the shareholders, we may enter into joint ventures with any member of our Board of Trustees or our officers.

We are not precluded from purchasing assets or services from members of our Board of Trustees or our management, and such purchases do not require notice to, or the approval of, our shareholders, provided that all relationships are on terms no more favorable than those that could be obtained from third-party providers. As of January 31, 2002, the only continuing business relationship that existed between us and a member of our Board of Trustees or management involved Steven B. Hoyt, a members of our Board of Trustees. As of January 31, 2002, we had contracts with Hoyt Properties, Inc., a entity that is 100% owned by Mr. Hoyt, together with his wife, to provide management and leasing services for eight commercial properties in Minnesota. Pursuant to such contacts, which can be terminated on 30 day's notice by either party without penalty, we pay Hoyt Properties, Inc. a fee equal to five percent of gross rents in exchange for such services. During the first nine-months of Fiscal 2002, we paid Hoyt Properties, Inc. \$199,925, 100% of which has been recovered by us from the tenants leasing space at such properties. We also paid Hoyt Properties, Inc. \$20,666 in leasing commissions during that same period. See also *Certain Relationships and Related Transactions* on Page 54 of this prospectus.

**Risks Related to Our Structure and Organization**

*We May Incur Tax Liabilities as a Consequence of Failing to Qualify as a REIT.* Although management believes that we are organized and operating to qualify as a real estate investment trust, as that term is defined under the Code, no assurance can be given that we have in fact operated, or will 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 Code provisions for which there are only limited judicial or administrative interpretations, and further involves the determination of various factual matters and circumstances not entirely within our control. See *Certain Tax Considerations* Considerations Regarding IRET and its Shareholders on Page 57 of this prospectus. For example, in order to qualify as a REIT, at least 95% of our gross income in any year must be derived from qualifying sources, and we must make distributions to shareholders aggregating annually at least 90% of our REIT taxable income (excluding net capital gains). Thus, to the extent revenues from non-qualifying sources, such as income from third-party management,

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represents 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 Code apply. Even in the event that such relief provisions apply, however, a tax would be imposed with respect to excess net income. Additionally, in the event that IRET Properties, our operating partnership, or certain other subsidiaries are determined to be taxable as a corporation, we may fail to qualify as a REIT. Either the 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 our shareholders and our ability to pay amounts due on our debt. Furthermore, no assurance can be given that new legislation, regulations, administrative interpretations or court decisions will not change the tax laws with respect to our qualification as a REIT, or the federal income tax consequences of such qualification.

If we fail to qualify as a REIT, we will 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 you and our ability to pay amounts due on our debt. In addition, unless entitled to relief under certain statutory provisions, we would also be disqualified from treatment as a REIT for the four taxable years following the year during which qualification is lost. This treatment would reduce funds available for investment or distributions to you because of the additional tax liability to us for the year or years involved. In addition, we would no longer be required to make distributions to you. To the extent that distributions to you would have 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.

*Certain REIT Qualifications May Limit a Change in Control or Deter a Takeover.* In order to maintain our qualification as a REIT, not more than 50% of our outstanding capital stock may be owned, actually or constructively, by five or fewer individuals. The term "individual" is defined in the Code and includes certain entities. In order to protect against the risk of losing our status as a REIT as a result of concentration of ownership among our shareholders, our Second Restated Declaration of Trust provides that in the event that our Board of Trustees determines, in good faith, that direct or indirect ownership of our Shares has or may become concentrated to an extent that would prevent us from qualifying as a REIT, it may prevent the transfer of, or call for redemption (by lot or other means affecting one or more shareholders selected in the sole discretion of our Board of Trustees) of, a number of Shares sufficient in the opinion of the members of our Board of Trustees to maintain or bring the direct or indirect ownership of the Shares into conformity with the requirements for maintaining REIT status. These limitations may have the effect of preventing a change in control or takeover of us by a third-party without consent of our Board of Trustees, even if such an event would be in the best interests of our shareholders.

*Our Board of Trustees May Make Changes to Our Major Policies Without Shareholder Approval.* Our major policies, including policies relating to development, acquisitions, financing, growth, debt capitalization and distributions, are determined by our Board of Trustees. Accordingly, our Board of Trustees may amend or revoke those policies, and certain other policies, without advance notice to, or the approval of, our shareholders.

*Holders of Senior Securities will be Paid Before Holders of Shares.* As of January 31, 2002, we had \$21.6 million worth of investment certificates issued and outstanding. Such securities are senior to the Shares offered for sale in this prospectus. As a result, in the event that we cease operations or liquidate and distribute all of our assets, the holders of such investment certificates would be paid in full before any money is distributed to the holders of our Shares. This preference may result in holders of our Shares receiving less money or no money. Currently, all of the investment certificates authorized by the Board of Trustees are issued and outstanding and no additional investment certificates are available for issuance. The Board of Trustees may, however, authorize the issuance of additional investment certificates at any time, or from time to time, without notice to, or the approval of, our shareholders.

*Certain Restrictions on the Transfer of Shares May Result in Losses.* Certain provisions of our Second Restated Declaration of Trust, which are designed to enable us to maintain our status as a REIT, authorize us (i) to refuse to effect a transfer of any Shares to any person if such transfer would jeopardize our qualification



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as a REIT, and (ii) to repurchase any such Shares held by any such person. Specifically, our Second Restated Declaration of Trust provides that:

To ensure compliance with the Internal Revenue Code provision that no more than 50% of the outstanding shares may be owned by five or fewer individuals, the trustees may at any time redeem shares from any shareholder at the fair market value thereof (as determined in good faith by the trustees based on an independent appraisal of trust assets made within six months of the redemption date). Also, the trustee may refuse to transfer shares to any person whose acquisition of additional shares might, in the opinion of the trustees, violate the above requirement.

As a result of these provisions, an investor may be forced to redeem their Shares, which may result in a loss or adverse income tax consequences. Additionally, an investor may be prohibited from purchasing additional Shares.

**DETERMINATION OF OFFERING PRICE**

In setting the price of the Shares available for sale under this offering at \$9.50, we considered the following three factors:

The recent trading price of the Shares on the NASDAQ SmallCap Market from January 1, 2002, to April 8, 2002 and on the NASDAQ National Market from April 9, 2002 to April 17, 2002. From January 1, 2002 to April 17, 2002, the average high was \$9.87, the average low was \$9.69 and the average closing price was \$9.82.

We attempt to achieve an annual distribution rate of approximately 6.5% based on the selling price of new Shares. As of January 31, 2002, our historical distribution rate over the prior 12 months of \$0.585 based on the goal of a 6.5% distribution yield suggests an offering price of \$9.00.

We attempt to base the price for new Shares as a multiple of the prior 12 months of FFO at not more than 11 times the prior 12 months FFO. Based on an FFO per share for the prior 12 months of \$0.88, this suggests an offering price of \$9.68.

Based on the above three factors, we determined that the offering price should be set at \$9.50 per share.

**EFFECTIVE DATE OF OFFERING**

The offering of Shares pursuant to this prospectus will begin on the effective date, which is set forth on the front cover, and will end when all of the Shares have been sold or when we elect to terminate the offering, whichever occurs first.

**DILUTION**

The book value of our Shares is substantially less than the \$9.50 offering price. As of January 31, 2002, the book value of the 27,539,584 Shares outstanding was \$5.26 per share. Assuming all of the Shares registered under this offering are sold, the estimated resulting book value will be \$5.66 per share. Thus, an investor paying \$9.50 per share under this offering will incur an immediate book value dilution of \$3.84 per share.

**USE OF PROCEEDS**

We estimate that the net proceeds from the sale of the Shares in this offering will be approximately \$31,666,318. Net proceeds is what we expect to receive after paying all sales commissions and expenses in connection with this offering, which we estimate will be approximately \$2,533,682. We currently plan to use the proceeds for general business purposes, including the acquisition, development, renovation, expansion or improvement of income-producing real estate properties. Pending such use, the net proceeds may be invested in short-term income-producing investments, such as United States Treasury Bonds with terms of six months or less.

Our Board of Trustees will have broad discretion with respect to how to use the net proceeds. Although our Board may change its investment criteria at any time without notice to, or the approval of, our

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shareholders, real estate properties acquired with the net proceeds of this offering will generally meet the following criteria:

They will be located in Minnesota, Nebraska, South Dakota, Colorado, Montana or North Dakota.

They will be multi-family residential properties with historical occupancy for the previous 24 months of 85% or better, or commercial properties currently leased to tenants occupying at least 90% or more of the space.

The appraised value of the property will be equal to or greater than the purchase price.

**PRICE RANGE OF SHARES AND DISTRIBUTIONS**

The following sets forth the high and low sale prices for our Shares for the periods indicated as reported by the NASDAQ Small Cap Market and the distributions we paid with respect to each period.

|   | <u>High</u> | <u>Low</u> | <u>Distribution<br/>per Share</u> |
|---|-------------|------------|-----------------------------------|
| <b>Fiscal 2000</b>                                  |             |            |                                   |
| First Quarter ending July 31, 1999                  | \$ 17.88    | \$ 7.06    | \$ 0.1240                         |
| Second Quarter ending October 31, 1999              | 10.50       | 7.06       | 0.1260                            |
| Third Quarter ending January 31, 2000               | 8.38        | 7.25       | 0.1280                            |
| Fourth Quarter ending April 30, 2000                | 8.13        | 7.13       | 0.1300                            |
| <b>Fiscal 2001</b>                                  |             |            |                                   |
| First Quarter ending July 31, 2000                  | \$ 8.13     | \$ 7.38    | \$ 0.1325                         |
| Second Quarter ending October 31, 2000              | 8.25        | 7.59       | 0.1350                            |
| Third Quarter ending January 31, 2001               | 8.50        | 7.44       | 0.1400                            |
| Fourth Quarter ending April 30, 2001                | 8.98        | 8.00       | 0.1425                            |
| <b>Fiscal 2002</b>                                  |             |            |                                   |
| First Quarter ending July 31, 2001                  | \$ 10.49    | \$ 8.25    | \$ 0.1450                         |
| Second Quarter ending October 31, 2001              | 9.43        | 8.80       | 0.1475                            |
| Third Quarter ending January 31, 2002               | 10.00       | 9.00       | 0.1500                            |
| Fourth Quarter (February 1, 2002 - April 18, 2002*) | 10.45       | 9.51       | 0.1520**                          |

\* The most recent practicable date prior to the filing of this prospectus with the Securities and Exchange Commission.

\*\* On April 1, 2002, our Board of Trustees paid a quarterly dividend of \$.152 per share to shareholders of record as of the close of business on March 15, 2002.

We have paid quarterly distributions since July 1, 1971. Distributions are generally paid in January, April, July and October of each year. Our current quarterly dividend rate is \$0.152 per Share.

Over the past three calendar years ending December 31, the annual distributions have been treated as follows for federal and state income tax purposes:

|                   | <u>2001</u> | <u>2000</u> | <u>1999</u> |
|-------------------|-------------|-------------|-------------|
| Ordinary Income   | 65.98%      | 86.76%      | 69.75%      |
| Capital Gain      | 0.00        | .72         | 30.25       |
| Return of Capital | 34.02       | 12.52       | 0.00        |
| Total             | 100.00%     | 100.00%     | 100.00%     |

*Distribution Reinvestment Plan.* We offer our shareholders the option of reinvesting all, or a portion of, their distributions in additional Shares through our dividend reinvestment plan. Our dividend reinvestment plan provides that we will repurchase Shares on the open market for the purpose of fulfilling our obligations under the plan or, if a sufficient number of our Shares are not available on the open market, we may issue additional Shares. In order to participate in our distribution reinvestment plan, a shareholder must affirmatively elect to do so by notifying the Transfer Agent and Registrar. We currently act as our own Transfer Agent and Registrar and can be contacted at 12 South Main, Suite 100,

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Minot, ND, 58701. Our telephone number is (701) 837-4738. A shareholder may terminate participation in the plan at any time by notifying the Transfer Agent. Distributions may be taxable to shareholders whether received in cash or Shares.

**Table of Contents****SELECTED CONSOLIDATED FINANCIAL DATA**

The selected consolidated financial data set forth below for the fiscal years ended April 30, 2001, 2000 and 1999, has been derived from the our financial statements, which have been audited by Brady Martz & Associates, P.C., independent auditors, whose report thereon is included in this prospectus on page F-17. The consolidated financial data for the years ended April 31, 1998 and 1997 have been derived from audited financial statements not included in this prospectus. The selected consolidated financial data for the nine-months ended January 31, 2002 and 2001 has been derived from our unaudited financial statements included on pages F-2 to F-16 of this prospectus. It is our opinion that all adjustments (of normal recurring nature) necessary for a fair presentation of the financial statements have been made. These historical results are not necessarily indicative of the results to be expected in the future. The following table is qualified by reference to and should be read in conjunction with the consolidated financial statements, related notes thereto and other financial data included elsewhere in this prospectus.

|  | <b>2001</b>    | <b>2000</b>   | <b>1999</b>    | <b>1998</b>    | <b>1997</b>    |
|--|----------------|---------------|----------------|----------------|----------------|
| <b>Consolidated Income Statement Data</b>                    |                |               |                |                |                |
| Revenue  | \$ 75,767,150  | \$ 55,445,193 | \$ 39,927,262  | \$ 32,407,545  | \$ 23,833,981  |
| Income before gain/loss on properties and minority interest  | 10,187,812     | 8,548,558     | 6,401,676      | 4,691,198      | 3,499,443      |
| Gain on repossession/ Sale of properties                     | 601,605        | 1,754,496     | 1,947,184      | 465,499        | 398,424        |
| Minority interest of portion of operating partnership income | (2,095,177)    | (1,495,209)   | (744,725)      | (141,788)      | (18)           |
| Net income   | 8,694,240      | 8,807,845     | 7,604,135      | 5,014,909      | 3,897,849      |
| <b>Consolidated Balance Sheet Data</b>                       |                |               |                |                |                |
| Total real estate investments                                | \$ 548,580,418 | 418,216,516   | \$ 280,311,442 | \$ 213,211,369 | \$ 177,891,168 |
| Total assets   | 570,322,124    | 432,978,299   | 291,493,311    | 224,718,514    | 186,993,943    |
| Shareholders equity  | 118,945,160    | 109,920,591   | 85,783,294     | 68,152,626     | 59,997,619     |
| <b>Per Share</b>   |                |               |                |                |                |
| Net Income   | \$ .38         | \$ .42        | \$ .44         | \$ .32         | \$ .28         |
| Dividends  | .55            | .51           | .47            | .42            | .39            |

| <b>Calender year</b>          | <b>2001</b> | <b>2000</b> | <b>1999</b> | <b>1998</b> | <b>1997</b> |
|-------------------------------|-------------|-------------|-------------|-------------|-------------|
| <b>Tax status of dividend</b> |             |             |             |             |             |
| Capital gain                  | 0.00%       | .72%        | 30.25%      | 2.9%        | 21.0%       |
| Ordinary income               | 65.98       | 86.76       | 69.75       | 97.1        | 79.0        |
| Return of capital             | 34.02       | 12.52       | 0.00        | 0.0         | 0.0         |

**Table of Contents****PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS****Acquisitions for the Nine Months Ended January 31, 2002  
(unaudited)**

The pro forma consolidated statement of operations (unaudited) for the nine-months ended January 31, 2002, is presented as if our fiscal year-to-date real estate acquisition had been completed at the beginning of the period, May 1, 2001, rather than on the actual acquisition or closing date.

We acquired the following real estate during the nine-months ended January 31, 2002.

| Property Description  | Date of Acquisition | Total Purchase Price<br>(Including All Closing Costs) |
|---|---------------------|---|
| Cottage Grove Center 15,217 sq. ft. Strip Mall Cottage Grove, MN  | 07/06/01            | \$ 1,101,550  |
| Interlachen Corporation Center 105,084 sq. ft. Multi-tenant Office Building Edina, MN                       | 08/10/01            | 16,691,307  |
| Canyon Lake Plaza Apartments 78,701 sq. ft. 109-unit Apartment Community Rapid City, SD                     | 09/27/01            | 4,270,607   |
| Bloomington Business Plaza 114,819 sq. ft. Multi-tenant Office Building Bloomington, MN                     | 10/01/01            | 7,405,669   |
| Applewood on the Green 87,200 sq. ft. 234-unit Apartment Community Omaha, NE                                | 10/31/01            | 10,364,745  |
| Thresher Square 113,736 sq. ft. Multi-tenant Office Building Minneapolis, MN                                | 01/02/02            | 11,119,958  |
| Stone Container Distribution Center & Plant 229,072 sq. ft. Single-tenant Industrial Building Roseville, MN | 12/20/01            | 8,229,182   |
| Total   |                     | <u>\$59,183,018</u>                                   |

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|  | Nine Months Ended<br>01/31/02 | Nine-Months Ended<br>Acquisitions<br>Pro Forma Adjustments | Total Consolidated<br>Pro Forma |
|--|-------------------------------|--|---------------------------------|
| <b>REVENUE</b>   |                               |  |                                 |
| Real Estate Rentals  | \$ 67,742,920                 | \$ 4,590,325   | \$ 72,333,245                   |
| Interest, Discounts and Fees                                   | 817,987                       | 0  | 817,987                         |
| Total Revenue  | <u>\$ 68,560,907</u>          | <u>\$ 4,590,325</u>  | <u>\$ 73,151,232</u>            |
| <b>EXPENSES</b>  |                               |  |                                 |
| Interest   | \$ 22,619,159                 | \$ 1,296,052   | \$ 23,915,211                   |
| Depreciation   | 11,372,808                    | 603,852  | 11,976,660                      |
| Utilities and Maintenance                                      | 9,162,893                     | 770,023  | 9,932,916                       |
| Taxes  | 6,637,475                     | 460,408  | 7,097,883                       |
| Insurance  | 1,005,564                     | 30,315   | 1,035,879                       |
| Property Management Expenses                                   | 5,168,144                     | 167,881  | 5,336,025                       |
| Administrative Expenses and<br>Trustee Services                | 1,138,337                     | 0  | 1,138,337                       |
| Operating Expenses   | 415,944                       | 0  | 415,944                         |
| Amortization   | 403,613                       | 0  | 403,613                         |
| Total Expenses   | <u>\$ 57,923,937</u>          | <u>\$ 3,328,531</u>  | <u>\$ 61,252,468</u>            |
| INCOME BEFORE GAIN/LOSS ON<br>PROPERTIES AND MINORITY INTEREST | \$ 10,636,970                 | \$ 1,261,793   | \$ 11,898,764                   |
| GAIN ON SALE OF PROPERTIES                                     | 327,678                       | 0  | 327,678                         |
| MINORITY INTEREST PORTION OF<br>OPERATING PARTNERSHIP INCOME   | \$ (3,002,753)                | \$ (317,972)   | \$ (3,320,725)                  |
| NET INCOME   | <u>\$ 7,961,895</u>           | <u>\$ 943,821</u>  | <u>\$ 8,905,717</u>             |
| Net income per share ( <i>basic and diluted</i> )              | <u>\$ .32</u>                 | <u>\$ .04</u>  | <u>\$ .36</u>                   |

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**UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL INFORMATION**

**NINE-MONTHS ENDED JANUARY 31, 2002**

The pro forma consolidated statement of operations (*unaudited*) for the nine-months ended January 31, 2002, is presented as if the real estate acquisitions set forth below had been completed as of May 1, 2001, the beginning of the period, rather than on the actual acquisition or closing date.