

INVESTORS REAL ESTATE TRUST

Form 10-Q

September 11, 2017

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended July 31, 2017

or

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

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

Commission File Number 001-35624

INVESTORS REAL ESTATE TRUST

(Exact name of registrant as specified in its charter)

North Dakota

(State or other jurisdiction of incorporation or organization)

45-0311232

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

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1400 31st Avenue SW, Suite 60, Post Office Box 1988, Minot, ND 58702-1988  
(Address of principal executive offices) (Zip code)

(701) 837-4738

(Registrant's telephone number, including area code)

N/A

(Former name, former address, and former fiscal year, if changed since last report.)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to the filing requirements for at least the past 90 days.

YesNo

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

YesNo

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

Large

accelerated Accelerated filer Non-accelerated filer Smaller Reporting Company Emerging growth company  
filer

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

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

YesNo

The number of common shares of beneficial interest outstanding as of September 5, 2017, was 120,586,875.

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## PART I

## ITEM 1. FINANCIAL STATEMENTS - FIRST QUARTER - FISCAL 2018

## INVESTORS REAL ESTATE TRUST AND SUBSIDIARIES

## CONDENSED CONSOLIDATED BALANCE SHEETS (unaudited)

|  | (in thousands)      |                     |
|--|---------------------|---------------------|
|  | July 31, 2017       | April 30, 2017      |
| <b>ASSETS</b>  |                     |                     |
| Real estate investments  |                     |                     |
| Property owned   | \$ 1,744,252        | \$ 1,677,481        |
| Less accumulated depreciation  | (368,769)           | (340,417)           |
|  | 1,375,483           | 1,337,064           |
| Unimproved land  | 15,195              | 18,455              |
| Total real estate investments  | 1,390,678           | 1,355,519           |
| Assets held for sale and assets of discontinued operations   | 37,552              | 37,708              |
| Cash and cash equivalents  | 23,801              | 28,819              |
| Receivable arising from straight-lining of rents, net of allowance of \$285 and \$340, respectively      | 7,992               | 7,822               |
| Accounts receivable, net of allowance of \$182 and \$210, respectively                                   | 2,184               | 2,600               |
| Real estate deposits   | —                   | 23,659              |
| Prepaid and other assets   | 2,125               | 3,131               |
| Notes receivable   | 3,000               | —                   |
| Intangible assets, net of accumulated amortization of \$5,724 and \$5,444, respectively                  | 1,249               | 658                 |
| Tax, insurance, and other escrow   | 4,285               | 5,050               |
| Property and equipment, net of accumulated depreciation of \$1,216 and \$1,199, respectively             | 836                 | 901                 |
| Goodwill   | 1,572               | 1,572               |
| Deferred charges and leasing costs, net of accumulated amortization of \$4,619 and \$4,275, respectively | 7,076               | 7,075               |
| <b>TOTAL ASSETS</b>  | <b>\$ 1,482,350</b> | <b>\$ 1,474,514</b> |
| <b>LIABILITIES, REDEEMABLE NONCONTROLLING INTERESTS, AND EQUITY</b>                                      |                     |                     |
| <b>LIABILITIES</b>   |                     |                     |
| Liabilities held for sale and liabilities of discontinued operations                                     | \$ 29,683           | \$ 30,062           |
| Accounts payable and accrued expenses  | 36,859              | 40,350              |
| Revolving line of credit   | 125,900             | 57,050              |
| Mortgages payable, net of unamortized loan costs of \$3,276 and \$3,480, respectively                    | 660,753             | 661,960             |
| Construction debt and other  | 20,205              | 41,817              |
| <b>TOTAL LIABILITIES</b>   | <b>873,400</b>      | <b>831,239</b>      |
| <b>COMMITMENTS AND CONTINGENCIES (NOTE 15)</b>   |                     |                     |
| <b>REDEEMABLE NONCONTROLLING INTERESTS – CONSOLIDATED REAL ESTATE ENTITIES</b>                           | <b>7,010</b>        | <b>7,181</b>        |
| <b>EQUITY</b>  |                     |                     |

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|   |              |              |
|---|--------------|--------------|
| Investors Real Estate Trust shareholders' equity  |              |              |
| Series B Preferred Shares of Beneficial Interest (Cumulative redeemable preferred shares, no par value, 4,600 shares issued and outstanding at July 31, 2017 and April 30, 2017, aggregate liquidation preference of \$115,000) | 111,357      | 111,357      |
| Common Shares of Beneficial Interest (Unlimited authorization, no par value, 120,587 shares issued and outstanding at July 31, 2017 and 121,199 shares issued and outstanding at April 30, 2017)                                | 912,625      | 916,121      |
| Accumulated distributions in excess of net income   | (488,535)    | (466,541)    |
| Total Investors Real Estate Trust shareholders' equity  | 535,447      | 560,937      |
| Noncontrolling interests – Operating Partnership (14,657 units at July 31, 2017 and 15,617 units at April 30, 2017)   | 64,789       | 73,233       |
| Noncontrolling interests – consolidated real estate entities  | 1,704        | 1,924        |
| Total equity  | 601,940      | 636,094      |
| TOTAL LIABILITIES, REDEEMABLE NONCONTROLLING INTERESTS, AND EQUITY  | \$ 1,482,350 | \$ 1,474,514 |

See accompanying Notes to Condensed Consolidated Financial Statements.

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## INVESTORS REAL ESTATE TRUST AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited)

for the three months ended July 31, 2017 and 2016

|  | (in thousands, except per share data) |             |
|--|---------------------------------------|-------------|
|  | Three Months Ended                    |             |
|  | July 31,                              |             |
|  | 2017                                  | 2016        |
| REVENUE  |                                       |             |
| Real estate rentals  | \$ 47,647                             | \$ 44,985   |
| Tenant reimbursement   | 5,088                                 | 4,626       |
| TOTAL REVENUE  | 52,735                                | 49,611      |
| EXPENSES   |                                       |             |
| Property operating expenses, excluding real estate taxes   | 17,636                                | 16,057      |
| Real estate taxes  | 6,614                                 | 5,577       |
| Depreciation and amortization  | 28,927                                | 14,267      |
| Impairment of real estate investments  | 256                                   | 54,153      |
| General and administrative expenses  | 4,002                                 | 3,501       |
| TOTAL EXPENSES   | 57,435                                | 93,555      |
| Operating loss   | (4,700)                               | (43,944)    |
| Interest expense   | (9,295)                               | (10,364)    |
| Loss on extinguishment of debt   | (199)                                 | —           |
| Interest income  | 21                                    | 28          |
| Other income   | 210                                   | 160         |
| Loss before gain on sale of real estate and other investments and income from discontinued operations    | (13,963)                              | (54,120)    |
| Gain on sale of real estate and other investments  | 124                                   | 8,958       |
| Loss from continuing operations  | (13,839)                              | (45,162)    |
| Income from discontinued operations  | 560                                   | 4,568       |
| NET LOSS   | (13,279)                              | (40,594)    |
| Net loss attributable to noncontrolling interests – Operating Partnership                                | 1,644                                 | 3,296       |
| Net loss attributable to noncontrolling interests – consolidated real estate entities                    | 371                                   | 15,655      |
| Net loss attributable to Investors Real Estate Trust   | (11,264)                              | (21,643)    |
| Dividends to preferred shareholders  | (2,286)                               | (2,879)     |
| NET LOSS AVAILABLE TO COMMON SHAREHOLDERS  | \$ (13,550)                           | \$ (24,522) |
| Loss per common share from continuing operations – Investors Real Estate Trust – basic and diluted       | \$ (0.11)                             | \$ (0.23)   |
| Earnings per common share from discontinued operations – Investors Real Estate Trust – basic and diluted | —                                     | 0.03        |
| NET LOSS PER COMMON SHARE – BASIC & DILUTED  | \$ (0.11)                             | \$ (0.20)   |
| DIVIDENDS PER COMMON SHARE   | \$ 0.07                               | \$ 0.13     |

See accompanying Notes to Condensed Consolidated Financial Statements.



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## INVESTORS REAL ESTATE TRUST AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF EQUITY (unaudited)

for the three months ended July 31, 2017 and 2016

|                  | (in thousands)                   |                     |                                  |                  |  |  |                 |
|------------------|----------------------------------|---------------------|----------------------------------|------------------|--|--|-----------------|
|                  | NUMBER OF<br>PREFERRED<br>SHARES | PREFERRED<br>SHARES | NUMBER<br>OF<br>COMMON<br>SHARES | COMMON<br>SHARES | ACCUMULATED<br>DISTRIBUTIONS<br>IN EXCESS OF<br>NET INCOME | NONREDEEMABLE<br>NONCONTROLLING<br>INTERESTS | TOTAL<br>EQUITY |
| Balance          |                                  |                     |                                  |                  |  |  |                 |
| April 30, 2016   | 5,750                            | \$ 138,674          | 121,091                          | \$ 922,084       | \$ (442,000)   | \$ 99,504                                    | \$ 718,262      |
| Net loss         |                                  |                     |                                  |                  |  |  |                 |
| attributable to  |                                  |                     |                                  |                  |  |  |                 |
| Investors Real   |                                  |                     |                                  |                  |  |  |                 |
| Estate Trust     |                                  |                     |                                  |                  |  |  |                 |
| and              |                                  |                     |                                  |                  |  |  |                 |
| nonredeemable    |                                  |                     |                                  |                  |  |  |                 |
| noncontrolling   |                                  |                     |                                  |                  |  |  |                 |
| interests        |                                  |                     |                                  |                  | (21,643)   | (18,897)                                     | (40,540)        |
| Distributions –  |                                  |                     |                                  |                  |  |  |                 |
| common shares    |                                  |                     |                                  |                  |  |  |                 |
| and units        |                                  |                     |                                  |                  | (15,742)   | (2,117)                                      | (17,859)        |
| Distributions –  |                                  |                     |                                  |                  |  |  |                 |
| Series A         |                                  |                     |                                  |                  |  |  |                 |
| preferred shares |                                  |                     |                                  |                  | (593)  |  | (593)           |
| Distributions –  |                                  |                     |                                  |                  |  |  |                 |
| Series B         |                                  |                     |                                  |                  |  |  |                 |
| preferred shares |                                  |                     |                                  |                  | (2,286)  |  | (2,286)         |
| Shares issued    |                                  |                     |                                  |                  |  |  |                 |
| and share-based  |                                  |                     |                                  |                  |  |  |                 |
| compensation     |                                  |                     | 437                              | 614              |  |  | 614             |
| Contributions    |                                  |                     |                                  |                  |  |  |                 |
| from             |                                  |                     |                                  |                  |  |  |                 |
| nonredeemable    |                                  |                     |                                  |                  |  |  |                 |
| noncontrolling   |                                  |                     |                                  |                  |  |  |                 |
| interests –      |                                  |                     |                                  |                  |  |  |                 |
| consolidated     |                                  |                     |                                  |                  |  |  |                 |
| real estate      |                                  |                     |                                  |                  |  |  |                 |
| entities         |                                  |                     |                                  |                  |  | 572  | 572             |
| Distributions to |                                  |                     |                                  |                  |  |  |                 |
| nonredeemable    |                                  |                     |                                  |                  |  |  |                 |
| noncontrolling   |                                  |                     |                                  |                  |  |  |                 |
| interests –      |                                  |                     |                                  |                  |  |  |                 |
| consolidated     |                                  |                     |                                  |                  |  |  |                 |
| real estate      |                                  |                     |                                  |                  |  |  |                 |
| entities         |                                  |                     |                                  |                  |  | (126)  | (126)           |

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|               |       |            |         |            |              |           |            |
|---------------|-------|------------|---------|------------|--------------|-----------|------------|
| Other         |       |            |         |            |              | (24)      | (24)       |
| Balance       |       |            |         |            |              |           |            |
| July 31, 2016 | 5,750 | \$ 138,674 | 121,528 | \$ 922,698 | \$ (482,264) | \$ 78,912 | \$ 658,020 |