

INVESTORS REAL ESTATE TRUST

Form 10-Q

March 12, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C.

20549

Form 10-Q

Quarterly Report Pursuant to Section 13 or 15(d)

of the Securities Exchange Act of 1934

For Quarter Ended January 31, 2015

Commission File Number 0-14851

INVESTORS REAL ESTATE TRUST

(Exact name of registrant as specified in its charter)

North Dakota 45-0311232

(State or other jurisdiction of (I.R.S. Employer Identification No.)  
incorporation or organization)

1400 31<sup>st</sup> 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.

Yes R No

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

Yes R No

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

Large accelerated filer R Accelerated filer

Non-accelerated filer  Smaller Reporting Company

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

Yes  No R

Registrant is a North Dakota Real Estate Investment Trust. As of February 20, 2015, it had 122,600,010 common shares of beneficial interest outstanding.

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## PART I

## ITEM 1. FINANCIAL STATEMENTS - THIRD QUARTER - FISCAL 2015

## INVESTORS REAL ESTATE TRUST AND SUBSIDIARIES

## CONDENSED CONSOLIDATED BALANCE SHEETS (unaudited)

|  | (in thousands, except<br>share data) |                    |
|--|--------------------------------------|--------------------|
|  | January 31,<br>2015                  | April 30,<br>2014  |
| <b>ASSETS</b>  |                                      |                    |
| Real estate investments  |                                      |                    |
| Property owned   | \$2,093,148                          | \$1,996,031        |
| Less accumulated depreciation  | (439,153)                            | (424,288)          |
|  | 1,653,995                            | 1,571,743          |
| Development in progress  | 114,005                              | 104,609            |
| Unimproved land  | 27,675                               | 22,864             |
| Total real estate investments  | 1,795,675                            | 1,699,216          |
| Real estate held for sale  | 44,259                               | 2,951              |
| Cash and cash equivalents  | 52,148                               | 47,267             |
| Other investments  | 329                                  | 329                |
| Receivable arising from straight-lining of rents, net of allowance of \$714 and \$796, respectively  | 27,169                               | 27,096             |
| Accounts receivable, net of allowance of \$445 and \$248, respectively   | 5,574                                | 10,206             |
| Real estate deposits   | 7,494                                | 145                |
| Prepaid and other assets   | 5,580                                | 4,639              |
| Intangible assets, net of accumulated amortization of \$25,423 and \$24,071, respectively  | 28,475                               | 32,639             |
| Tax, insurance, and other escrow   | 11,277                               | 20,880             |
| Property and equipment, net of accumulated depreciation of \$1,364 and \$2,041, respectively   | 1,619                                | 1,681              |
| Goodwill   | 1,940                                | 1,100              |
| Deferred charges and leasing costs, net of accumulated amortization of \$21,020 and \$21,068, respectively   | 19,803                               | 21,072             |
| <b>TOTAL ASSETS</b>  | <b>\$2,001,342</b>                   | <b>\$1,869,221</b> |
| <b>LIABILITIES AND EQUITY</b>  |                                      |                    |
| <b>LIABILITIES</b>   |                                      |                    |
| Accounts payable and accrued expenses  | \$69,901                             | \$59,105           |
| Revolving line of credit   | 50,500                               | 22,500             |
| Mortgages payable  | 1,006,179                            | 997,689            |
| Other  | 132,210                              | 63,178             |
| <b>TOTAL LIABILITIES</b>   | <b>1,258,790</b>                     | <b>1,142,472</b>   |
| <b>COMMITMENTS AND CONTINGENCIES (NOTE 6)</b>  |                                      |                    |
| <b>REDEEMABLE NONCONTROLLING INTERESTS – CONSOLIDATED REAL ESTATE ENTITIES</b>   | <b>6,340</b>                         | <b>6,203</b>       |
| <b>EQUITY</b>  |                                      |                    |
| Investors Real Estate Trust shareholders' equity   |                                      |                    |
| Series A Preferred Shares of Beneficial Interest (Cumulative redeemable preferred shares, no par value, 1,150,000 shares issued and outstanding at January 31, 2015 and April 30, 2014, aggregate liquidation preference of \$28,750,000)  | 27,317                               | 27,317             |
| Series B Preferred Shares of Beneficial Interest (Cumulative redeemable preferred shares, no par value, 4,600,000 shares issued and outstanding at January 31, 2015 and April 30, 2014, aggregate liquidation preference of \$115,000,000) | 111,357                              | 111,357            |
|  | 935,287                              | 843,268            |

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Common Shares of Beneficial Interest (Unlimited authorization, no par value, 122,134,143 shares issued and outstanding at January 31, 2015, and 109,019,341 shares issued and outstanding at April 30, 2014)

|  |             |             |
|--|-------------|-------------|
| Accumulated distributions in excess of net income  | (430,282)   | (389,758)   |
| Total Investors Real Estate Trust shareholders' equity   | 643,679     | 592,184     |
| Noncontrolling interests – Operating Partnership (14,397,983 units at January 31, 2015 and 21,093,445 units at April 30, 2014) | 61,177      | 105,724     |
| Noncontrolling interests – consolidated real estate entities   | 31,356      | 22,638      |
| Total equity   | 736,212     | 720,546     |
| TOTAL LIABILITIES, REDEEMABLE NONCONTROLLING INTERESTS AND EQUITY  | \$2,001,342 | \$1,869,221 |

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

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INVESTORS REAL ESTATE TRUST AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited)  
 for the three and nine months ended January 31, 2015 and 2014

|  | (in thousands, except per share data) |                |                                 |                |
|--|---------------------------------------|----------------|---------------------------------|----------------|
|  | Three Months<br>Ended<br>January 31   |                | Nine Months Ended<br>January 31 |                |
|  | 2015                                  | 2014           | 2015                            | 2014           |
| <b>REVENUE</b>   |                                       |                |                                 |                |
| Real estate rentals  | \$60,440                              | \$56,156       | \$176,401                       | \$164,256      |
| Tenant reimbursement   | 11,513                                | 11,473         | 33,431                          | 34,243         |
| TRS senior housing revenue   | 963                                   | 804            | 2,599                           | 804            |
| <b>TOTAL REVENUE</b>   | <b>72,916</b>                         | <b>68,433</b>  | <b>212,431</b>                  | <b>199,303</b> |
| <b>EXPENSES</b>  |                                       |                |                                 |                |
| Depreciation/amortization related to real estate investments   | 16,834                                | 16,733         | 49,846                          | 51,156         |
| Utilities  | 5,367                                 | 5,042          | 15,141                          | 15,173         |
| Maintenance  | 7,799                                 | 7,828          | 23,391                          | 22,719         |
| Real estate taxes  | 8,816                                 | 7,679          | 25,583                          | 24,415         |
| Insurance  | 1,479                                 | 1,190          | 4,560                           | 3,904          |
| Property management expenses   | 4,746                                 | 4,064          | 13,731                          | 12,383         |
| Other property expenses  | 227                                   | 124            | 783                             | 304            |
| TRS senior housing expenses  | 825                                   | 671            | 2,243                           | 671            |
| General and administrative   | 3,242                                 | 2,935          | 10,986                          | 9,572          |
| Amortization related to non-real estate investments  | 916                                   | 756            | 2,628                           | 2,500          |
| Impairment of real estate investments  | 540                                   | 4,798          | 6,105                           | 4,798          |
| <b>TOTAL EXPENSES</b>  | <b>50,791</b>                         | <b>51,820</b>  | <b>154,997</b>                  | <b>147,595</b> |
| Gain on involuntary conversion   | 0                                     | 1,514          | 0                               | 2,480          |
| Operating income   | 22,125                                | 18,127         | 57,434                          | 54,188         |
| Interest expense   | (14,595)                              | (15,130)       | (43,858)                        | (44,525)       |
| Interest income  | 561                                   | 573            | 1,681                           | 1,346          |
| Other income   | 109                                   | 34             | 376                             | 123            |
| Income before gain (loss) on sale of real estate and other investments and income from discontinued operations | 8,200                                 | 3,604          | 15,633                          | 11,132         |
| Gain (loss) on sale of real estate and other investments   | 951                                   | 0              | (811)                           | 0              |
| Income from continuing operations  | 9,151                                 | 3,604          | 14,822                          | 11,132         |
| Income from discontinued operations  | 0                                     | 465            | 0                               | 6,450          |
| <b>NET INCOME</b>  | <b>9,151</b>                          | <b>4,069</b>   | <b>14,822</b>                   | <b>17,582</b>  |
| Net income attributable to noncontrolling interests – Operating Partnership                                    | (657)                                 | (130)          | (618)                           | (1,406)        |
| Net income attributable to noncontrolling interests – consolidated real estate entities                        | (123)                                 | (436)          | (870)                           | (808)          |
| Net income attributable to Investors Real Estate Trust   | 8,371                                 | 3,503          | 13,334                          | 15,368         |
| Dividends to preferred shareholders  | (2,879)                               | (2,879)        | (8,636)                         | (8,636)        |
| <b>NET INCOME AVAILABLE TO COMMON SHAREHOLDERS</b>   | <b>\$5,492</b>                        | <b>\$624</b>   | <b>\$4,698</b>                  | <b>\$6,732</b> |
| Earnings per common share from continuing operations – Investors Real Estate Trust – basic and diluted         | \$.05                                 | \$.00          | \$.04                           | \$.01          |
| Earnings per common share from discontinued operations – Investors Real Estate Trust – basic and diluted       | .00                                   | .00            | .00                             | .05            |
| <b>NET INCOME PER COMMON SHARE – BASIC AND DILUTED</b>   | <b>\$.05</b>                          | <b>\$.00</b>   | <b>\$.04</b>                    | <b>\$.06</b>   |
| <b>DIVIDENDS PER COMMON SHARE</b>  | <b>\$.1300</b>                        | <b>\$.1300</b> | <b>\$.3900</b>                  | <b>\$.3900</b> |

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

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INVESTORS REAL ESTATE TRUST AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF EQUITY (unaudited)  
for the nine months ended January 31, 2015 and 2014

(in thousands)

|  | NUMBER<br>OF<br>PREFERRED<br>SHARES | PREFERRED<br>SHARES | NUMBER<br>OF<br>COMMON<br>SHARES | COMMON<br>SHARES | ACCUMULATED<br>DISTRIBUTIONS<br>EXCESS<br>OF<br>NET<br>INCOME | NONCONTROLLING<br>INTERESTS | TOTAL<br>EQUITY |
|--|-------------------------------------|---------------------|----------------------------------|------------------|---|-----------------------------|-----------------|
|  |                                     |                     |                                  |                  |   | (as revised)                | (as revised)    |
| Balance April 30, 2013   | 5,750                               | \$ 138,674          | 101,488                          | \$ 784,454       | \$ (310,341)  | \$ 142,657                  | \$ 755,444      |
| Net income attributable to<br>Investors Real Estate Trust<br>and nonredeemable<br>noncontrolling interests |                                     |                     |                                  |                  | 15,368  | 2,038                       | 17,406          |
| Distributions – common<br>shares and units   |                                     |                     |                                  |                  | (40,685)  | (8,508)                     | (49,193)        |
| Distributions – Series A<br>preferred shares   |                                     |                     |                                  |                  | (1,779)   |                             | (1,779)         |
| Distributions – Series B<br>preferred shares   |                                     |                     |                                  |                  | (6,857)   |                             | (6,857)         |
| Distribution reinvestment<br>and share purchase plan   |                                     |                     | 5,239                            | 44,153           |   |                             | 44,153          |
| Share-based compensation   |                                     |                     | 13                               | 112              |   |                             | 112             |
| Partnership units issued   |                                     |                     |                                  |                  |   | 3,480                       | 3,480           |
| Redemption of units for<br>common shares   |                                     |                     | 197                              | 1,131            |   | (1,131)                     | 0               |
| Contributions from<br>nonredeemable<br>noncontrolling interests –<br>consolidated real estate<br>entities  |                                     |                     |                                  |                  |   | 3,316                       | 3,316           |
| Other  |                                     |                     |                                  | (34)             |   | (731)                       | (765)           |
| Balance January 31, 2014   | 5,750                               | \$ 138,674          | 106,937                          | \$ 829,816       | \$ (344,294)  | \$ 141,121                  | \$ 765,317      |
| Balance April 30, 2014   | 5,750                               | \$ 138,674          | 109,019                          | \$ 843,268       | \$ (389,758)  | \$ 128,362                  | \$ 720,546      |
| Net income attributable to<br>Investors Real Estate Trust<br>and nonredeemable<br>noncontrolling interests |                                     |                     |                                  |                  | 13,334  | 1,351                       | 14,685          |
| Distributions – common<br>shares and units   |                                     |                     |                                  |                  | (45,222)  | (6,753)                     | (51,975)        |
| Distributions – Series A<br>preferred shares   |                                     |                     |                                  |                  | (1,779)   |                             | (1,779)         |
| Distributions – Series B<br>preferred shares   |                                     |                     |                                  |                  | (6,857)   |                             | (6,857)         |
|  |                                     |                     | 6,205                            | 50,875           |   |                             | 50,875          |

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|   |       |            |         |            |              |           |            |
|---|-------|------------|---------|------------|--------------|-----------|------------|
| Distribution reinvestment and share purchase plan   |       |            |         |            |              |           |            |
| Share-based compensation  | 204   | 2,632      |         |            |              |           | 2,632      |
| Partnership units issued  |       |            |         |            | 100          |           | 100        |
| Redemption of units for common shares   | 6,706 | 38,512     |         |            | (38,512)     |           | 0          |
| Contributions from nonredeemable noncontrolling interests – consolidated real estate entities |       |            |         |            | 8,540        |           | 8,540      |
| Other   |       |            |         |            | (555)        |           | (555)      |
| Balance January 31, 2015  | 5,750 | \$ 138,674 | 122,134 | \$ 935,287 | \$ (430,282) | \$ 92,533 | \$ 736,212 |

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

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INVESTORS REAL ESTATE TRUST AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)  
 for the nine months ended January 31, 2015 and 2014

|   | (in thousands)    |          |
|---|-------------------|----------|
|   | Nine Months Ended |          |
|   | January 31        |          |
|   | 2015              | 2014     |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>   |                   |          |
| Net income  | \$14,822          | \$17,582 |
| Adjustments to reconcile net income to net cash provided by operating activities:   |                   |          |
| Depreciation and amortization   | 53,583            | 55,996   |
| Loss (gain) on sale of real estate, land, other investments and discontinued operations   | 811               | (6,999)  |
| Gain on involuntary conversion  | 0                 | (2,480)  |
| Share-based compensation expense  | 1,935             | 0        |
| Impairment of real estate investments   | 6,105             | 6,658    |
| Bad debt expense  | 840               | 346      |
| Changes in other assets and liabilities:  |                   |          |
| Increase in receivable arising from straight-lining of rents  | (244)             | (2,179)  |
| Decrease (increase) in accounts receivable  | 2,217             | (3,483)  |
| Increase in prepaid and other assets  | (1,140)           | (3,127)  |
| Increase in tax, insurance and other escrow   | (548)             | (1,779)  |
| Increase in deferred charges and leasing costs  | (2,716)           | (3,506)  |
| Increase in accounts payable, accrued expenses, and other liabilities   | 5,109             | 3,075    |
| Net cash provided by operating activities   | 80,774            | 60,104   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>   |                   |          |
| Proceeds from real estate deposits  | 575               | 926      |
| Payments for real estate deposits   | (7,924)           | (4,232)  |
| Decrease in lender holdbacks for improvements   | 11,063            | 2,186    |
| Increase in lender holdbacks for improvements   | (913)             | (12,388) |
| Proceeds from sale of discontinued operations   | 0                 | 78,879   |
| Proceeds from sale of real estate and other investments   | 26,758            | 165      |
| Insurance proceeds received   | 2,537             | 2,452    |
| Payments for acquisitions of real estate assets   | (24,404)          | (33,662) |
| Payments for development and re-development of real estate assets   | (143,256)         | (97,288) |
| Payments for improvements of real estate assets   | (24,681)          | (25,815) |
| Net cash used by investing activities   | (160,245)         | (88,777) |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>   |                   |          |
| Proceeds from mortgages payable   | 78,875            | 40,733   |
| Principal payments on mortgages payable   | (83,198)          | (81,432) |
| Proceeds from revolving line of credit and other debt   | 45,000            | 12,500   |
| Proceeds from construction debt   | 69,051            | 39,784   |
| Principal payments on revolving line of credit and other debt   | (17,000)          | (17,443) |
| Proceeds from financing liability   | 0                 | 7,900    |
| Proceeds from sale of common shares under distribution reinvestment and share purchase program  | 38,819            | 33,160   |
| Proceeds from noncontrolling partner – consolidated real estate entities  | 1,916             | 416      |
| Distributions paid to common shareholders, net of reinvestment of \$11,550 and \$10,511, respectively   | (33,672)          | (30,174) |
| Distributions paid to preferred shareholders  | (8,636)           | (8,636)  |
| Distributions paid to noncontrolling interests – Unitholders of the Operating Partnership, net of reinvestment of \$506 and \$482, respectively | (6,247)           | (8,026)  |

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|  |          |          |
|--|----------|----------|
| Distributions paid to noncontrolling interests – consolidated real estate entities | (556)    | (748)    |
| Net cash provided (used) by financing activities                                   | 84,352   | (11,966) |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS                               | 4,881    | (40,639) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD                                   | 47,267   | 94,133   |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD   | \$52,148 | \$53,494 |

(continued)

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INVESTORS REAL ESTATE TRUST AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited, continued)  
 for the nine months ended January 31, 2015 and 2014

(in thousands)  
 Nine Months  
 Ended  
 January 31  
 2015 2014

SUPPLEMENTARY SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES  
 FOR THE PERIOD

|  |          |          |
|--|----------|----------|
| Distribution reinvestment plan   | \$11,550 | \$10,511 |
| Operating partnership distribution reinvestment plan   | 506      | 482      |
| Operating partnership units converted to shares  | 38,512   | 1,131    |
| Shares issued under the Incentive Award Plan   | 860      | 112      |
| Real estate assets acquired through the issuance of operating partnership units                | 100      | 3,480    |
| Real estate assets acquired through assumption of indebtedness and accrued costs               | 12,169   | 0        |
| Increase (decrease) to accounts payable included within real estate investments                | 6,384    | (325)    |
| Real estate assets contributed by noncontrolling interests – consolidated real estate entities | 6,624    | 2,900    |
| Involuntary conversion of assets due to flood and fire damage                                  | 0        | 7,052    |
| Forfeiture of note payable in conjunction with sale of property                                | 0        | 600      |

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Cash paid for interest, net of amounts capitalized of \$3,628 and \$2,139, respectively \$39,073 \$40,845

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

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**INVESTORS REAL ESTATE TRUST AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)**

for the nine months ended January 31, 2015 and 2014

**NOTE 1 • ORGANIZATION**

Investors Real Estate Trust ("IRET" or the "Company") is a self-advised real estate investment trust engaged in acquiring, owning and leasing multi-family and commercial real estate. IRET has elected to be taxed as a Real Estate Investment Trust ("REIT") under Sections 856-860 of the Internal Revenue Code of 1986, as amended. As a REIT, we are subject to a number of organizational and operational requirements, including a requirement to distribute 90% of ordinary taxable income to shareholders, and, generally, are not subject to federal income tax on net income, except for taxes on undistributed REIT taxable income and taxes on the income generated by our taxable REIT subsidiary ("TRS"). Our TRS is subject to corporate federal and state income tax on its taxable income at regular statutory rates. We have considered estimated future taxable income and have determined that there were no material income tax provisions or material net deferred income tax items for our TRS for the nine months ended January 31, 2015 and 2014. IRET's multi-family residential properties and commercial properties are located mainly in the states of North Dakota and Minnesota, but also in the states of Colorado, Idaho, Iowa, Kansas, Missouri, Montana, Nebraska, South Dakota, Wisconsin and Wyoming. As of January 31, 2015, IRET owned 99 multi-family residential properties with 11,765 apartment units and 160 commercial properties, consisting of office, healthcare, industrial and retail properties, totaling 9.8 million net rentable square feet. IRET conducts a majority of its business activities through its consolidated operating partnership, IRET Properties, a North Dakota Limited Partnership (the "Operating Partnership"), as well as through a number of other consolidated subsidiary entities.

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

**NOTE 2 • BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES**

**BASIS OF PRESENTATION**

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

The accompanying condensed consolidated financial statements include the accounts of IRET and its interest in the Operating Partnership. The Company's interest in the Operating Partnership was 89.5% of the common units of the Operating Partnership as of January 31, 2015 and 83.8% as of April 30, 2014. The limited partners in the Operating Partnership have a redemption option that they may exercise. Upon exercise of the redemption option by the limited partners, IRET has the choice of redeeming the limited partners' interests ("Units") for IRET common shares of beneficial interest, on a one-for-one basis, or making a cash payment to the unitholder. The redemption generally may be exercised by the limited partners at any time after the first anniversary of the date of the acquisition of the Units (provided, however, that in general not more than two redemptions by a limited partner may occur during each calendar year, and each limited partner may not exercise the redemption for less than 1,000 Units, or, if such limited partner holds less than 1,000 Units, for all of the Units held by such limited partner). The Operating Partnership and some limited partners have contractually agreed to a holding period of greater than one year and/or a greater number of redemptions during a calendar year.

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

**UNAUDITED INTERIM FINANCIAL STATEMENTS**

The interim condensed consolidated financial statements of IRET have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and the applicable rules and regulations of the Securities and Exchange Commission ("SEC"). Accordingly, certain disclosures accompanying annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") are omitted. The year-end balance sheet data was derived from audited financial statements, but does not include all disclosures required by U.S. GAAP. In the opinion of management, all adjustments, consisting solely of normal recurring adjustments, necessary for the fair presentation of the Company's financial position, results of operations and cash flows for the interim periods have been included.

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The current period's results of operations are not necessarily indicative of results which ultimately may be achieved for the year. The interim condensed consolidated financial statements and notes thereto should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended April 30, 2014, as filed with the SEC on June 30, 2014.

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## RECENT ACCOUNTING PRONOUNCEMENTS

In April 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-08, Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. Under this standard, a disposal (or classification as held for sale) of a component of an entity or a group of components of an entity is required to be reported in discontinued operations if the disposal represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results. Examples include a disposal of a major geographic area, a major line of business, or a major equity method investment. In addition, the new guidance requires expanded disclosures about the assets, liabilities, income and expenses of discontinued operations. The ASU is effective for all disposals (or classifications as held for sale) of components of an entity that occur within annual periods beginning on or after December 15, 2014, and interim periods within those years. Early adoption is permitted, but only for disposals (or classifications as held for sale) that have not been reported in financial statements previously issued or available for issuance. The Company adopted this update effective February 1, 2014 and determined that the adoption did not have a material impact on the Company's consolidated results of operations or financial condition.

As a result of the adoption of ASU No. 2014-08, results of operations and gains or losses on sale for properties that are disposed or classified as held for sale in the ordinary course of business on or subsequent to February 1, 2014 would generally be included in continuing operations on the Company's consolidated statements of operations, to the extent such disposals did not meet the criteria for classification as a discontinued operation described above. During the quarter ended April 30, 2014, the Company applied the new standard to one property that was classified as held for sale. The Company applied the new standard to nine property dispositions and thirteen properties classified as held for sale during the nine months ended January 31, 2015.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers. The standard will eliminate the transaction- and industry-specific revenue recognition guidance under current U.S. GAAP and replace it with a principle based approach for determining revenue recognition. ASU No. 2014-09 does not apply to lease contracts accounted for under Accounting Standards Codification Topic ("ASC") 840, Leases. The ASU is effective for annual and interim periods beginning after December 15, 2016. The Company does not expect adoption of this update to have a material impact on the Company's operating results or financial position.

In June 2014, the FASB issued ASU No. 2014-12, Compensation – Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period. ASU No. 2014-12 requires an entity to treat performance targets that can be met after the requisite service period of a share-based award has ended, as a performance condition that affects vesting. The ASU is effective for interim and annual reporting periods in fiscal years that begin after December 15, 2015. The Company does not expect the adoption of this update to have a material impact on the Company's operating results or financial position.

In January 2014, the FASB issued ASU No. 2015-01, Income Statement – Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items. ASU No. 2015-01 eliminates from GAAP the concept of extraordinary items. The presentation and disclosure guidance for items that are unusual in nature and occurring infrequently will be retained and will be expanded to include items that are both unusual in nature and infrequently occurring. The ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. The Company does not expect the adoption of this update to have a material impact on the Company's operating results or financial position.

## IMPAIRMENT OF LONG-LIVED ASSETS

The Company periodically evaluates its long-lived assets, including its investments in real estate, for impairment indicators. The impairment evaluation is performed on assets by property such that assets for a property form an asset group. The judgments regarding the existence of impairment indicators are based on factors such as operational performance, market conditions, expected holding period of each asset group and legal and environmental concerns. If indicators exist, the Company compares the expected future undiscounted cash flows for the long-lived asset group against the carrying amount of that asset group. If the sum of the estimated undiscounted cash flows is less than the carrying amount of the asset group, an impairment loss is recorded for the difference between the estimated fair value and the carrying amount of the asset group. If our anticipated holding period for properties, the estimated fair value of properties or other factors change based on market conditions or otherwise, our evaluation of impairment charges may

be different and such differences could be material to our consolidated financial statements. The evaluation of anticipated cash flows is subjective and is based, in part, on assumptions regarding future occupancy, rental rates and capital requirements that could differ materially from actual results. Plans to hold properties over longer periods decrease the likelihood of recording impairment losses.

During the nine months ended January 31, 2015, the Company incurred a loss of \$6.1 million due to impairment of four commercial properties and two parcels of unimproved land. The Company recognized impairments of \$2.1 million on a retail property in Kalispell, Montana, approximately \$183,000 on an office property in Golden Valley, Minnesota, \$1.8 million on an office property in

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Minneapolis, Minnesota, \$1.4 million on an office property in Boise, Idaho, approximately \$98,000 on unimproved land in Eagan, Minnesota, and approximately \$442,000 on unimproved land in Weston, Wisconsin. These properties were written-down to estimated fair value during the first, second and third quarters of fiscal year 2015 based on receipt of individual market offers to purchase and the Company's intent to dispose of the properties or, in the case of the Boise, Idaho and Weston, Wisconsin properties, an independent appraisal. The Kalispell and Golden Valley properties were sold in the second quarter of fiscal year 2015. The Minneapolis property is classified as held for sale at January 31, 2015. During the nine months ended January 31, 2014, the Company incurred a loss of \$6.7 million due to impairment of five commercial properties, of which \$1.9 million is reflected in discontinued operations. See Note 7 for additional information on discontinued operations. The Company recognized impairments of approximately \$864,000 on a commercial industrial property in St. Louis Park, Minnesota; \$329,000 on a commercial office property in Bloomington, Minnesota; \$265,000 on a commercial retail property in Anoka, Minnesota; \$402,000 on a commercial industrial property in Clive, Iowa and \$4.8 million on a commercial industrial property in Roseville, Minnesota.

#### HELD FOR SALE

The Company classifies properties as held for sale when they meet the U.S. GAAP criteria, which include: (a) management commits to and initiates a plan to sell the asset (disposal group), (b) the sale is probable and expected to be completed within one year under terms that are usual and customary for sales of such assets (disposal groups), and (c) actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn. Depreciation is not recorded on assets classified as held for sale. Prior to February 1, 2014, the Company reported, in discontinued operations, the results of operations and the related gains or losses of properties that had either been disposed of or classified as held for sale and otherwise met the classification of a discontinued operation. As a result of the adoption of ASU No. 2014-08, results of operations and gains or losses on sale for properties that are disposed or classified as held for sale in the ordinary course of business on or subsequent to February 1, 2014 would generally be included in continuing operations on the Company's consolidated statements of operations, to the extent such disposals did not meet the criteria for classification as a discontinued operation described above in Recent Accounting Pronouncements. At January 31, 2015, the Company had 10 office properties, one retail property, one healthcare property and one parcel of unimproved land classified as held for sale with assets of \$44.3 million and liabilities of \$22.6 million.

#### COMPENSATING BALANCES AND OTHER INVESTMENTS; HOLDBACKS

The Company maintains compensating balances, not restricted as to withdrawal, with several financial institutions in connection with financing received from those institutions and/or to ensure future credit availability. At January 31, 2015, the Company's compensating balances totaled \$14.3 million and consisted of the following: First International Bank, Watford City, North Dakota, deposit of \$6.1 million; Private Bank, Minneapolis, Minnesota, deposit of \$2.0 million; Associated Bank, Green Bay, Wisconsin, deposit of \$3.6 million; American National Bank, Omaha, Nebraska, deposit of \$400,000; Dacotah Bank, Minot, North Dakota, deposit of \$350,000; United Community Bank, Minot, North Dakota, deposit of \$275,000; Peoples State Bank of Velva, North Dakota, deposit of \$225,000, Commerce Bank, a Minnesota Banking Corporation, deposit of \$100,000, and Bremer Bank, Saint Paul, Minnesota, deposit of \$1.3 million. The deposits at United Community Bank and a portion of the deposit at Dacotah Bank are held as certificates of deposit and comprise the approximately \$329,000 in other investments on the Condensed Consolidated Balance Sheets. The certificates of deposit have remaining terms of less than two years and the Company intends to hold them to maturity.

The Company has a number of mortgage loans under which the lender retains a portion of the loan proceeds or requires a deposit for the payment of construction costs or tenant improvements. The decrease of \$11.1 million in holdbacks for improvements reflected in the Condensed Consolidated Statements of Cash Flows for the nine months ended January 31, 2015 is due primarily to the release of loan proceeds to the Company upon completion of construction and tenant improvement projects, while the increase of approximately \$913,000 represents additional amounts retained by lenders for new projects.

#### IDENTIFIED INTANGIBLE ASSETS AND LIABILITIES AND GOODWILL

Upon acquisition of real estate, the Company records the intangible assets and liabilities acquired (for example, if the leases in place for the real estate property acquired carry rents above the market rent, the difference is classified as an intangible asset) at their estimated fair value separate and apart from goodwill. The Company amortizes identified



intangible assets and liabilities that are determined to have finite lives based on the period over which the assets and liabilities are expected to affect, directly or indirectly, the future cash flows of the real estate property acquired (generally the life of the lease). In the nine months ended January 31, 2015 and 2014, respectively, the Company added approximately \$365,000 and \$900,000 of new intangible assets and no new intangible liabilities. The weighted average lives of the intangible assets acquired in the nine months ended January 31, 2015 and 2014 are 0.5 years and 0.7 years, respectively. Amortization of intangibles related to above or below-market leases is recorded in real estate rentals in the Condensed Consolidated Statements of Operations. Amortization of other intangibles is recorded in depreciation/amortization related to real estate investments in the Condensed Consolidated Statements of Operations. Intangible assets subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable.

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An impairment loss is recognized if the carrying amount of an intangible asset is not recoverable and its carrying amount exceeds its estimated fair value.

The Company's identified intangible assets and intangible liabilities at January 31, 2015 and April 30, 2014 were as follows:

|   | (in thousands)   |                |
|---|------------------|----------------|
|   | January 31, 2015 | April 30, 2014 |
| Identified intangible assets (included in intangible assets): |                  |                |
| Gross carrying amount   | \$53,898         | \$56,710       |
| Accumulated amortization                                      | (25,423)         | (24,071)       |
| Net carrying amount   | \$28,475         | \$32,639       |

|  |       |       |
|--|-------|-------|
| Identified intangible liabilities (included in other liabilities): |       |       |
| Gross carrying amount  | \$134 | \$173 |
| Accumulated amortization   | (107) | (127) |
| Net carrying amount  | \$27  | \$46  |

The amortization of acquired below-market leases and acquired above-market leases reduced rental income by approximately \$6,000 and \$11,000 for the three months ended January 31, 2015 and 2014, respectively, and approximately \$19,000 and \$32,000 for the nine months ended January 31, 2015 and 2014, respectively. The estimated annual amortization of acquired below-market leases, net of acquired above-market leases, for each of the five succeeding fiscal years is as follows:

| Year Ended April 30, | (in thousands) |
|----------------------|----------------|
| 2016                 | \$ 20          |
| 2017                 | 12             |
| 2018                 | (1)            |
| 2019                 | (2)            |
| 2020                 | (1)            |

Amortization of all other identified intangible assets (a component of depreciation and amortization expense) was \$1.3 million and \$1.5 million for the three months ended January 31, 2015 and 2014, respectively, and \$4.5 million and \$6.9 million for the nine months ended January 31, 2015 and 2014, respectively. The estimated annual amortization of all other identified intangible assets for each of the five succeeding fiscal years is as follows:

| Year Ended April 30, | (in thousands) |
|----------------------|----------------|
| 2016                 | \$ 4,505       |
| 2017                 | 4,036          |
| 2018                 | 3,605          |
| 2019                 | 3,481          |
| 2020                 | 3,395          |

The excess of the cost of an acquired business over the net of the amounts assigned to assets acquired (including identified intangible assets) and liabilities assumed is recorded as goodwill. The Company's goodwill has an indeterminate life and is not amortized, but is tested for impairment on an annual basis, or more frequently if events or changes in circumstances indicate that the asset might be impaired. The book value of goodwill as of January 31, 2015 and April 30, 2014 was \$1.9 million and \$1.1 million, respectively. The annual review at April 30, 2014 indicated no impairment to goodwill and there was no indication of impairment at January 31, 2015. During the nine months ended January 31, 2015, the Company recognized approximately \$852,000 of goodwill from the acquisition of the Homestead Garden residential property and disposed of one residential property to which goodwill had been assigned, and as a result, approximately \$11,000 of goodwill was derecognized. During the nine months ended January 31, 2014, the Company disposed of one commercial industrial property to which goodwill had been assigned, and as a result, approximately \$7,000 of goodwill was derecognized.

USE OF ESTIMATES

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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## RECLASSIFICATIONS

Certain previously reported amounts have been reclassified to conform to the current financial statement presentation. Prior to February 1, 2014, the Company reported, in discontinued operations, the results of operations and the related gains or losses of properties that had either been disposed of or classified as held for sale and otherwise met the classification of a discontinued operation. As a result of the adoption of ASU No. 2014-08, results of operations and gains or losses on sale for properties that are disposed or classified as held for sale in the ordinary course of business on or subsequent to February 1, 2014 would generally be included in continuing operations on the Company's consolidated statements of operations, to the extent such disposals did not meet the criteria for classification as a discontinued operation described above in Recent Accounting Pronouncements. As a result of discontinued operations recognized prior to February 1, 2014, retroactive reclassifications that change prior period numbers have been made. See Note 7 for additional information. During fiscal year 2014, the Company classified as discontinued operations two multi-family residential properties, three office properties, twelve industrial properties and three retail properties. On the Condensed Consolidated Statements of Operations, the Company reclassified administrative expenses, advisory and trustee services and other expenses to general and administrative and also reclassified TRS senior housing revenue and TRS senior housing expenses from other income to TRS senior housing revenue and TRS senior housing expenses, respectively.

## REVISION

During fiscal year 2014 the Company identified an error pertaining to the reporting for a noncontrolling interest in a consolidated real estate joint venture formed in the fourth quarter of fiscal year 2013 for which the holder of such interest has the right to require the Company to acquire the interest at fair value twelve months after the final certificate of occupancy is obtained for the joint venture's development project. Accounting guidance in ASC 480-10-S99 Redeemable Preferred Stocks, requires that this noncontrolling interest be classified outside of permanent equity because it is redeemable at the option of the joint venture partner. This error resulted in an overstatement of noncontrolling interests and equity in the Company's consolidated statement of equity. This non-cash revision did not impact the Company's consolidated statements of operations or statements of cash flows for any period.

In accordance with accounting guidance found in ASC 250-10, Materiality, the Company assessed the materiality of the error and concluded that the error was not material to any of the Company's previously issued financial statements. In accordance with accounting guidance found in ASC 250-10, Considering the Effects of Prior Year Misstatement when Quantifying Misstatements in Current Year Financial Statements, the Company revised its previously issued statement of equity to correct the effect of this error.

The following table presents the effect of this correction on the Company's Condensed Consolidated Statement of Equity for the period affected:

|   | (in thousands)               |            |               |
|---|------------------------------|------------|---------------|
|   | As<br>Previously<br>Reported | Adjustment | As<br>Revised |
| Nine Months Ended January 31, 2014  |                              |            |               |
| Consolidated Statement of Equity  |                              |            |               |
| Noncontrolling Interests  |                              |            |               |
| Balance April 30, 2013  | \$ 148,594                   | \$ (5,937) | \$ 142,657    |
| Net income attributable to Investors Real Estate Trust and nonredeemable noncontrolling interests | 2,214                        | (176)      | 2,038         |
| Balance January 31, 2014  | 147,234                      | (6,113)    | 141,121       |
| Total Equity  |                              |            |               |
| Balance April 30, 2013  | 761,381                      | (5,937)    | 755,444       |
| Net income attributable to Investors Real Estate Trust and nonredeemable noncontrolling interests | 17,582                       | (176)      | 17,406        |
| Balance January 31, 2014  | 771,430                      | (6,113)    | 765,317       |

## INVOLUNTARY CONVERSION OF ASSETS

In June 2011, the Company's Chateau Apartments property, which at that time consisted of two 32-unit buildings, was extensively damaged by a flood. In February 2012, one of the buildings of the Chateau Apartments property, which

had been undergoing restoration work following the flood, was completely destroyed by fire (the "2012 Fire"). During the first and third quarters of fiscal year 2014, the Company received \$966,000 and \$1.3 million, respectively, of insurance proceeds for the 2012 Fire. The total insurance proceeds for redevelopment related to the 2012 Fire exceeded the basis in the assets requiring replacement, resulting in recognition of \$2.5 million in gain from involuntary conversion in the nine months ended January 31, 2014.

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In December 2013, 15-unit and 57-unit buildings at the Chateau Apartments property were destroyed by fire (the "2013 Fire"). Both buildings were under construction and were unoccupied. The Company is rebuilding both buildings, and currently expects them to be completed in the first quarter of fiscal year 2016. The Company received proceeds for the 2013 Fire claim of \$1.0 million in fiscal year 2014, \$2.0 million in the three months ended July 31, 2014 and \$4.0 million in the three months ended October 31, 2014, which reduced to zero the accounts receivable recorded at the time of the fire for expected proceeds. No gain or loss on involuntary conversion was recorded due to the settlement of the claim.

#### PROCEEDS FROM FINANCING LIABILITY

During the first quarter of fiscal year 2014, the Company sold a non-core assisted living property in exchange for \$7.9 million in cash and a \$29.0 million contract for deed. The buyer leased the property back to the Company, and also granted an option to the Company to repurchase the property at a specified price at or prior to July 31, 2018. IRET accounted for the transaction as a financing due to the Company's continuing involvement with the property and recorded the \$7.9 million in sales proceeds within other liabilities on the Condensed Consolidated Balance Sheets. The balance of the liability as of January 31, 2015 is \$7.9 million.

#### VARIABLE INTEREST ENTITY

On November 27, 2012 the Company entered into a joint venture operating agreement with a real estate development company to construct an apartment project in Minot, North Dakota as IRET – Minot Apartments, LLC. The Company estimated total costs for the project at \$52.2 million, with approximately 69% of the project financed with third-party debt and approximately 7% financed with debt from IRET to the joint venture entity. The first phase of the project, Landing at Southgate, was substantially completed in the second quarter of fiscal year 2014. The second phase of the project, Commons at Southgate, was substantially completed in the third quarter of fiscal year 2015. See Development, Expansion and Renovation Projects in Note 6 for additional information on Commons at Southgate. As of January 31, 2015 IRET is the approximately 52.9% owner of the joint venture and will have management and leasing responsibilities when the project is completed; the real estate development company owns approximately 47.1% of the joint venture and is responsible for the development and construction of the property. The Company has determined that the joint venture is a variable interest entity ("VIE"), primarily based on the fact that the equity investment at risk is not sufficient to permit the entity to finance its activities without additional subordinated financial support. The Company has also determined that IRET is the primary beneficiary of the VIE due to the fact that IRET is providing more than 50% of the equity contributions, the subordinated debt and a guarantee on the third party debt and has the power to direct the most significant activities that impact the entity's economic performance.

On June 12, 2014 the Company entered into a joint venture operating agreement with a real estate development company and two other partners to construct a three-phase apartment and retail project in Edina, Minnesota as IRET – 71 France, LLC. The Company estimates total costs for the project at \$73.3 million, with approximately 69% of the project financed with third-party debt and approximately 7% financed with debt from IRET to the joint venture entity. The first and second phases of the project are expected to be completed in the second and third quarters of fiscal year 2016, respectively. Construction of the third phase has not commenced, but is expected to be completed in the first quarter of fiscal year 2017. See Development, Expansion and Renovation Projects in Note 6 for additional information. As of January 31, 2015 IRET is the approximately 52.6% owner of the joint venture and will have management and leasing responsibilities after the project has been in service for 24 months; the real estate development company and the other two partners own approximately 47.4% of the joint venture and are responsible for the development, construction and initial leasing of the property. The Company has determined that the joint venture is a variable interest entity ("VIE"), primarily based on the fact that the equity investment at risk is not sufficient to permit the entity to finance its activities without additional subordinated financial support. The Company has also determined that IRET is the primary beneficiary of the VIE due to the fact that IRET is providing more than 50% of the equity contributions, the subordinated debt and a guarantee on the third party debt and has the power to direct the most significant activities that impact the entity's economic performance.

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## NOTE 3 • EARNINGS PER SHARE

Basic earnings per share is computed by dividing net income available to common shareholders by the weighted average number of common shares outstanding during the period. The Company has no outstanding options, warrants, convertible stock or other contractual obligations requiring issuance of additional shares that would result in dilution of earnings. Units can be exchanged for shares on a one-for-one basis after a minimum holding period of one year. The following table presents a reconciliation of the numerator and denominator used to calculate basic and diluted earnings per share reported in the condensed consolidated financial statements for the three and nine months ended January 31, 2015 and 2014:

|   | (in thousands, except per share data) |              |              |              |
|---|---------------------------------------|--------------|--------------|--------------|
|   | Three Months                          |              | Nine Months  |              |
|   | Ended                                 |              | Ended        |              |
|   | January 31                            |              | January 31   |              |
|   | 2015                                  | 2014         | 2015         | 2014         |
| <b>NUMERATOR</b>  |                                       |              |              |              |
| Income from continuing operations – Investors Real Estate Trust   | \$8,371                               | \$3,117      | \$13,334     | \$10,034     |
| Income from discontinued operations – Investors Real Estate Trust   | 0                                     | 386          | 0            | 5,334        |
| Net income attributable to Investors Real Estate Trust  | 8,371                                 | 3,503        | 13,334       | 15,368       |
| Dividends to preferred shareholders   | (2,879)                               | (2,879)      | (8,636)      | (8,636)      |
| Numerator for basic earnings per share – net income available to common shareholders                          | 5,492                                 | 624          | 4,698        | 6,732        |
| Noncontrolling interests – Operating Partnership  | 657                                   | 130          | 618          | 1,406        |
| Numerator for diluted earnings per share  | \$6,149                               | \$754        | \$5,316      | \$8,138      |
| <b>DENOMINATOR</b>  |                                       |              |              |              |
| Denominator for basic earnings per share weighted average shares  | 120,855                               | 106,208      | 116,303      | 104,472      |
| Effect of convertible operating partnership units   | 14,461                                | 21,819       | 17,334       | 21,830       |
| Denominator for diluted earnings per share  | 135,316                               | 128,027      | 133,637      | 126,302      |
| Earnings (loss) per common share from continuing operations – Investors Real Estate Trust – basic and diluted | \$.05                                 | \$.00        | \$.04        | \$.01        |
| Earnings per common share from discontinued operations – Investors Real Estate Trust – basic and diluted      | .00                                   | .00          | .00          | .05          |
| <b>NET INCOME (LOSS) PER COMMON SHARE – BASIC &amp; DILUTED</b>   | <b>\$.05</b>                          | <b>\$.00</b> | <b>\$.04</b> | <b>\$.06</b> |

## NOTE 4 • EQUITY

On June 27, 2013, the Company filed a shelf registration statement with the SEC to enable the Company to offer and sell, from time to time, in one or more offerings, an indeterminate amount of its common and preferred shares of beneficial interest and debt securities. On October, 27, 2014, the Company filed a prospectus supplement under this registration statement, relating to 10 million common shares registered for purchase under the Company's Distribution Reinvestment and Share Purchase Plan. On August 30, 2013, the Company entered into an ATM program with Robert W. Baird & Co. Incorporated as sales agent, pursuant to which the Company may from time to time offer and sell its common shares of beneficial interest having an aggregate gross sales price of up to \$75.0 million, under this registration statement. Sales of common shares, if any, under the program will depend upon market conditions and other factors to be determined by the Company. The Company to date has issued no shares under the ATM program. During the first quarter of fiscal year 2015, the Company issued approximately 204,000 common shares, with a total grant-date value of approximately \$1.9 million, under the Company's 2008 Incentive Award Plan, for executive officer and trustee share-based compensation for fiscal year 2014 performance. Of these shares, approximately 105,000 are restricted, and will vest on the one-year anniversary of the grant date (i.e., on April 30, 2015), provided the recipient is still employed with the Company, and subject to the terms and conditions of the Company's long-term incentive plan ("LTIP"). During the first quarter of fiscal year 2014, the Company issued approximately 13,000 common shares, with a total grant-date value of approximately \$112,000, under the 2008 Incentive Award Plan, for

trustee share-based compensation for fiscal year 2013 performance.

The Company has a Distribution Reinvestment and Share Purchase Plan ("DRIP"). The DRIP provides common shareholders and UPREIT Unitholders of the Company an opportunity to invest their cash distributions in common shares of the Company, and purchase additional shares through voluntary cash contributions, at a discount (currently 3%) from the market price. The maximum monthly voluntary cash contribution permitted without prior Company approval is currently \$10,000. The Company can issue waivers

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to DRIP participants to provide for investments in excess of the \$10,000 maximum monthly investment. There were no waivers issued during the three months ended January 31, 2015 and 2014. During the nine months ended January 31, 2015, the Company issued approximately 926,000 shares at an average price of \$8.64 per share pursuant to such waivers, for total net proceeds to the Company of \$8.0 million. During the nine months ended January 31, 2014, the Company issued 1.4 million shares at an average price of \$8.88 per share pursuant to such waivers, for total net proceeds to the Company of \$12.0 million.

During the three months ended January 31, 2015 and 2014, 2.0 million and 1.3 million common shares with a total value included in equity of \$16.1 million and \$11.1 million, and an average price per share after applicable discounts of \$8.06 and \$8.27, respectively, were issued under the DRIP plan. During the nine months ended January 31, 2015 and 2014, 6.2 million and 5.2 million common shares with a total value included in equity of \$50.9 million and \$44.2 million, and an average price per share after applicable discounts of \$8.20 and \$8.43, respectively, were issued under the DRIP plan.

During the three months ended January 31, 2015 and 2014, respectively, approximately 333,000 Units and approximately 37,000 Units were converted to common shares, with a total value of approximately \$811,000 and approximately \$185,000 included in equity. During the nine months ended January 31, 2015 and 2014, respectively, 6.7 million Units and approximately 197,000 Units were converted to common shares, with a total value of \$38.5 million and \$1.1 million included in equity.

**NOTE 5 • SEGMENT REPORTING**

IRET reports its results in five reportable segments: multi-family residential, office, healthcare (including senior housing), industrial and retail properties. The Company's reportable segments are aggregations of similar properties. IRET measures the performance of its segments based on net operating income ("NOI"), which the Company defines as total real estate revenues and gain on involuntary conversion less real estate expenses (which consist of utilities, maintenance, real estate taxes, insurance, property management expenses and other property expenses). IRET believes that NOI is an important supplemental measure of operating performance for a REIT's operating real estate because it provides a measure of core operations that is unaffected by depreciation, amortization, financing and general and administrative expense. NOI does not represent cash generated by operating activities in accordance with GAAP and should not be considered an alternative to net income, net income available for common shareholders or cash flow from operating activities as a measure of financial performance.

The revenues and net operating income for these reportable segments are summarized as follows for the three and nine month periods ended January 31, 2015 and 2014, along with reconciliations to the condensed consolidated financial statements. Segment assets are also reconciled to total assets as reported in the condensed consolidated financial statements.

|   | (in thousands)           |          |            |            |         |          |
|---|--------------------------|----------|------------|------------|---------|----------|
| Three Months Ended January 31, 2015                             | Multi-Family Residential | Office   | Healthcare | Industrial | Retail  | Total    |
| Real estate revenue   | \$30,256                 | \$19,086 | \$17,587   | \$1,741    | \$3,283 | \$71,953 |
| Real estate expenses  | 13,318                   | 9,050    | 4,315      | 501        | 1,250   | 28,434   |
| Net operating income  | \$16,938                 | \$10,036 | \$13,272   | \$1,240    | \$2,033 | 43,519   |
| TRS senior housing revenue                                      |                          |          |            |            |         | 963      |
| TRS senior housing expenses                                     |                          |          |            |            |         | (825)    |
| Depreciation/amortization                                       |                          |          |            |            |         | (17,750) |
| General and administrative                                      |                          |          |            |            |         | (3,242)  |
| Impairment of real estate investments                           |                          |          |            |            |         | (540)    |
| Interest expense  |                          |          |            |            |         | (14,595) |
| Interest and other income                                       |                          |          |            |            |         | 670      |
| Income before gain on sale of real estate and other investments |                          |          |            |            |         | 8,200    |
| Gain on sale of real estate and other investments               |                          |          |            |            |         | 951      |
| Net income  |                          |          |            |            |         | \$9,151  |

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| Three Months Ended January 31, 2014   | (in thousands)              |          |            |            |          | Total    |
|---------------------------------------|-----------------------------|----------|------------|------------|----------|----------|
|                                       | Multi-Family<br>Residential | Office   | Healthcare | Industrial | Retail   |          |
| Real estate revenue                   | \$25,848                    | \$19,394 | \$ 17,242  | \$ 1,664   | \$ 3,481 | \$67,629 |
| Real estate expenses                  | 10,998                      | 9,037    | 4,120      | 493        | 1,279    | 25,927   |
| Gain on involuntary conversion        | 1,514                       | 0        | 0          | 0          | 0        | 1,514    |
| Net operating income                  | \$16,364                    | \$10,357 | \$ 13,122  | \$ 1,171   | \$ 2,202 | 43,216   |
| TRS senior housing revenue            |                             |          |            |            |          | 804      |
| TRS senior housing expenses           |                             |          |            |            |          | (671)    |
| Depreciation/amortization             |                             |          |            |            |          | (17,489) |
| General and administrative            |                             |          |            |            |          | (2,935)  |
| Impairment of real estate investments |                             |          |            |            |          | (4,798)  |
| Interest expense                      |                             |          |            |            |          | (15,130) |
| Interest and other income             |                             |          |            |            |          | 607      |
| Income from continuing operations     |                             |          |            |            |          | 3,604    |
| Income from discontinued operations   |                             |          |            |            |          | 465      |
| Net income                            |                             |          |            |            |          | \$4,069  |

| Nine Months Ended January 31, 2015                              | (in thousands)              |          |            |            |           | Total     |
|---|-----------------------------|----------|------------|------------|-----------|-----------|
|   | Multi-Family<br>Residential | Office   | Healthcare | Industrial | Retail    |           |
| Real estate revenue   | \$87,576                    | \$56,917 | \$ 50,322  | \$ 4,904   | \$ 10,113 | \$209,832 |
| Real estate expenses  | 37,700                      | 27,873   | 12,905     | 1,223      | 3,488     | 83,189    |
| Net operating income  | \$49,876                    | \$29,044 | \$ 37,417  | \$ 3,681   | \$ 6,625  | 126,643   |
| TRS senior housing revenue                                      |                             |          |            |            |           | 2,599     |
| TRS senior housing expenses                                     |                             |          |            |            |           | (2,243)   |
| Depreciation/amortization                                       |                             |          |            |            |           | (52,474)  |
| General and administrative                                      |                             |          |            |            |           | (10,986)  |
| Impairment of real estate investments                           |                             |          |            |            |           | (6,105)   |
| Interest expense  |                             |          |            |            |           | (43,858)  |
| Interest and other income                                       |                             |          |            |            |           | 2,057     |
| Income before loss on sale of real estate and other investments |                             |          |            |            |           | 15,633    |
| Loss on sale of real estate and other investments               |                             |          |            |            |           | (811)     |
| Net income  |                             |          |            |            |           | \$14,822  |

| Nine Months Ended January 31, 2014 | (in thousands)              |          |            |            |           | Total     |
|------------------------------------|-----------------------------|----------|------------|------------|-----------|-----------|
|                                    | Multi-Family<br>Residential | Office   | Healthcare | Industrial | Retail    |           |
| Real estate revenue                | \$75,659                    | \$58,075 | \$ 49,340  | \$ 5,273   | \$ 10,152 | \$198,499 |
| Real estate expenses               | 33,006                      | 28,315   | 12,534     | 1,447      | 3,596     | 78,898    |
| Gain on involuntary conversion     | 2,480                       | 0        | 0          | 0          | 0         | 2,480     |
| Net operating income               | \$45,133                    | \$29,760 | \$ 36,806  | \$ 3,826   | \$ 6,556  | 122,081   |
| TRS senior housing revenue         |                             |          |            |            |           | 804       |
| TRS senior housing expenses        |                             |          |            |            |           | (671)     |

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|                                       |          |
|---------------------------------------|----------|
| Depreciation/amortization             | (53,656) |
| General and administrative            | (9,572)  |
| Impairment of real estate investments | (4,798)  |
| Interest expense                      | (44,525) |
| Interest and other income             | 1,469    |
| Income from continuing operations     | 11,132   |
| Income from discontinued operations   | 6,450    |
| Net income                            | \$17,582 |

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Segment Assets and Accumulated Depreciation

Segment assets are summarized as follows as of January 31, 2015, and April 30, 2014, along with reconciliations to the condensed consolidated financial statements:

| As of January 31, 2015        | (in thousands)                  |            |            |          |           | Total       |
|-------------------------------|---------------------------------|------------|------------|----------|-----------|-------------|
|                               | Multi-Family Residential Office | Healthcare | Industrial | Retail   |           |             |
| Segment Assets                |                                 |            |            |          |           |             |
| Property owned                | \$932,718                       | \$478,590  | \$519,588  | \$50,900 | \$111,352 | \$2,093,148 |
| Less accumulated depreciation | (172,987)                       | (112,093)  | (115,395)  | (10,836) | (27,842)  | (439,153)   |
| Net property owned            | \$759,731                       | \$366,497  | \$404,193  | \$40,064 | \$83,510  | 1,653,995   |
| Real estate held for sale     |                                 |            |            |          |           | 44,259      |
| Cash and cash equivalents     |                                 |            |            |          |           | 52,148      |
| Other investments             |                                 |            |            |          |           | 329         |
| Receivables and other assets  |                                 |            |            |          |           | 108,931     |
| Development in progress       |                                 |            |            |          |           | 114,005     |
| Unimproved land               |                                 |            |            |          |           | 27,675      |
| Total assets                  |                                 |            |            |          |           | \$2,001,342 |

| As of April 30, 2014          | (in thousands)                  |            |            |          |           | Total       |
|-------------------------------|---------------------------------|------------|------------|----------|-----------|-------------|
|                               | Multi-Family Residential Office | Healthcare | Industrial | Retail   |           |             |
| Segment assets                |                                 |            |            |          |           |             |
| Property owned                | \$753,731                       | \$544,628  | \$525,028  | \$55,375 | \$117,269 | \$1,996,031 |
| Less accumulated depreciation | (158,100)                       | (121,892)  | (105,843)  | (10,198) | (28,255)  | (424,288)   |
| Net property owned            | \$595,631                       | \$422,736  | \$419,185  | \$45,177 | \$89,014  | 1,571,743   |
| Real estate held for sale     |                                 |            |            |          |           | 2,951       |
| Cash and cash equivalents     |                                 |            |            |          |           | 47,267      |
| Other investments             |                                 |            |            |          |           | 329         |
| Receivables and other assets  |                                 |            |            |          |           | 119,458     |
| Development in progress       |                                 |            |            |          |           | 104,609     |
| Unimproved land               |                                 |            |            |          |           | 22,864      |
| Total assets                  |                                 |            |            |          |           | \$1,869,221 |

NOTE 6 • COMMITMENTS AND CONTINGENCIES

**Litigation.** The Company is not a party to any legal proceedings which are expected to have a material effect on the Company's liquidity, financial position, cash flows or results of operations. The Company is subject to a variety of legal actions for personal injury or property damage arising in the ordinary course of its business, most of which are covered by liability insurance. Various claims of resident discrimination are also periodically brought, most of which also are covered by insurance. While the resolution of these matters cannot be predicted with certainty, management believes that the final outcome of such legal proceedings and claims will not have a material effect on the Company's liquidity, financial position, cash flows or results of operations.

**Insurance.** IRET carries insurance coverage on its properties in amounts and types that the Company believes are customarily obtained by owners of similar properties and are sufficient to achieve IRET's risk management objectives.

**Purchase Options.** The Company has granted options to purchase certain IRET properties to tenants in these properties, under lease agreements. In general, the options grant the tenant the right to purchase the property at the greater of such property's appraised value or an annual compounded increase of a specified percentage of the initial cost of the property to IRET. As of January 31, 2015, the total property cost of the 15 properties subject to purchase options was \$120.5 million, and the total gross rental revenue from these properties was \$7.7 million for the nine

months ended January 31, 2015. The tenant in the Company's Nebraska Orthopaedic Hospital property has exercised its option to purchase the property. The Company and its tenant are currently engaged in an arbitration proceeding pursuant to the lease agreement to determine the purchase price. The Company currently can give no assurance that the sale of the property pursuant to the purchase option will be completed.

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**Environmental Matters.** Under various federal, state and local laws, ordinances and regulations, a current or previous owner or operator of real estate may be liable for the costs of removal of, or remediation of, certain hazardous or toxic substances in, on, around or under the property. While IRET currently has no knowledge of any material violation of environmental laws, ordinances or regulations at any of its properties, there can be no assurance that areas of contamination will not be identified at any of the Company's properties, or that changes in environmental laws, regulations or cleanup requirements would not result in material costs to the Company.

**Restrictions on Taxable Dispositions.** Approximately 95 of IRET's properties, consisting of 4.1 million square feet of the Company's combined commercial segments' properties and 4,831 apartment units, are subject to restrictions on taxable dispositions under agreements entered into with some of the sellers or contributors of the properties. The real estate investment amount of these properties (net of accumulated depreciation) was \$726.9 million at January 31, 2015. The restrictions on taxable dispositions are effective for varying periods. The terms of these agreements generally prevent the Company from selling the properties in taxable transactions. The Company does not believe that the agreements materially affect the conduct of the Company's business or decisions whether to dispose of restricted properties during the restriction period because the Company generally holds these and the Company's other properties for investment purposes, rather than for sale. Historically, however, where IRET has deemed it to be in the shareholders' best interests to dispose of restricted properties, it has done so through transactions structured as tax-deferred transactions under Section 1031 of the Internal Revenue Code.

**Redemption Value of Units.** The limited partnership units of the Company's operating partnership, IRET Properties, are redeemable at the option of the holder for cash, or, at our option, for the Company's common shares of beneficial interest on a one-for-one basis, after a minimum one-year holding period. All Units receive the same cash distributions as those paid on common shares. Units are redeemable for an amount of cash per Unit equal to the average of the daily market price of an IRET common share for the ten consecutive trading days immediately preceding the date of valuation of the Unit. As of January 31, 2015 and 2014, the aggregate redemption value of the then-outstanding Units of the operating partnership owned by limited partners was approximately \$122.0 million and \$186.9 million, respectively.

**Joint Venture Buy/Sell Options.** Certain of IRET's joint venture agreements contain buy/sell options in which each party under certain circumstances has the option to acquire the interest of the other party, but do not generally require that the Company buy its partners' interests. The Company currently has one joint venture, the Company's Southgate apartment project in Minot, North Dakota, in which the Company's joint venture partner can, for a four-year period beginning twelve months after the last certificate of occupancy is received for the project, compel the Company to acquire the partner's interest, for a price to be determined in accordance with the provisions of the joint venture agreement. The joint venture partner's interest is reflected as a redeemable noncontrolling interest on the Condensed Consolidated Balance Sheets.

**Tenant Improvements.** In entering into leases with tenants, IRET may commit itself to fund improvements or build-outs of the rented space to suit tenant requirements. These tenant improvements are typically funded at the beginning of the lease term, and IRET is accordingly exposed to some risk of loss if a tenant defaults prior to the expiration of the lease term, and the rental income that was expected to cover the cost of the tenant improvements is not received. As of January 31, 2015, the Company is committed to fund \$9.3 million in tenant improvements, within approximately the next 12 months.

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Development, Expansion and Renovation Projects. As of January 31, 2015, the Company had several development, expansion and renovation projects underway or placed in service during the quarter, the costs for which have been capitalized, as follows:

| Project Name and Location                          | Planned Segment          | Rentable Square Feet or Number of Units | (in thousands)         |   | (in fiscal years)                   |
|--|--------------------------|---|------------------------|---|-------------------------------------|
|  |                          |   | Anticipated Total Cost | Costs as of January 31, 2015 <sup>(1)</sup> | Anticipated Construction Completion |
| Commons at Southgate - Minot, ND <sup>(2)</sup>    | Multi-Family Residential | 233 units                               | \$37,201               | \$34,612                                    | In Service                          |
| Minot Wells Fargo Bank - Minot, ND                 | Retail                   | 4,998 sq ft                             | 3,288                  | 3,185                                       | In Service                          |
| Cypress Court II – St. Cloud, MN <sup>(3)</sup>    | Multi-Family Residential | 64 units                                | 7,028                  | 6,638                                       | In Service                          |
| Arcata - Golden Valley, MN                         | Multi-Family Residential | 165 units                               | 33,448                 | 30,384                                      | In Service                          |
| Red 20 - Minneapolis, MN <sup>(4)</sup>            | Multi-Family Residential | 130 units                               | 29,462                 | 28,330                                      | In Service                          |
| Roseville 3075 Long Lake Rd - Roseville, MN        | Industrial               | 202,807 sq ft                           | 13,915                 | 8,900                                       | 4Q 2015                             |
| Minot Office Center - Minot, ND                    | Retail                   | 7,963 sq ft                             | 2,923                  | 1,802                                       | 1Q 2016                             |
| Renaissance Heights - Williston, ND <sup>(5)</sup> | Multi-Family Residential | 288 units                               | 62,362                 | 54,713                                      | 1Q 2016                             |
| Chateau II - Minot, ND                             | Multi-Family Residential | 72 units                                | 14,711                 | 11,257                                      | 1Q 2016                             |
| Edina 6565 France SMC III - Edina, MN              | Healthcare               | 57,479 sq ft                            | 34,665                 | 16,668                                      | 1Q 2016                             |
| Cardinal Point - Grand Forks, ND                   | Multi-Family Residential | 251 units                               | 40,042                 | 19,885                                      | 2Q 2016                             |
| Deer Ridge – Jamestown, ND                         | Multi-Family Residential | 163 units                               | 24,519                 | 11,202                                      | 2Q 2016                             |
| PrairieCare Medical - Brooklyn Park, MN            | Healthcare               | 72,895 sq ft                            | 24,251                 | 12,195                                      | 2Q 2016                             |
| 71 France Phase I & II - Edina, MN <sup>(6)</sup>  | Multi-Family Residential | 181 units                               | 52,055                 | 20,787                                      | 3Q 2016                             |
| Other  | n/a                      | n/a                                     | n/a                    | 2,547                                       | n/a                                 |
|  |                          |   | \$379,870              | \$263,105                                   |                                     |

(1) Includes costs related to development projects that are placed in service in phases (Renaissance Heights - \$46.0 million).

(2) The Company is currently an approximately 52.9% partner in the joint venture entity constructing this project; the anticipated total cost amount given is the total cost to the joint venture entity.

(3) The Company is an approximately 86.1% partner in the joint venture entity constructing this project; the anticipated total cost amount given is the total cost to the joint venture entity.

(4) The Company is an approximately 58.6% partner in the joint venture entity constructing this project; the anticipated total cost amount given is the total cost to the joint venture entity. The anticipated total cost includes approximately 10,625 square feet of retail space.

(5) The Company is an approximately 70% partner in the joint venture entity constructing this project; the anticipated total cost amount given is the total cost to the joint venture entity.



The project will be constructed in three phases by a joint venture entity in which the Company has an approximately 52.6% interest. The anticipated total cost amount given in the table above is the total cost to the (6) joint venture entity of the project's first and second phase. The expected total project cost for all three phases is approximately \$73.3 million for a total of approximately 241 residential units and approximately 21,772 square feet of retail space.

These development projects are subject to various contingencies, and no assurances can be given that they will be completed within the time frames or on the terms currently expected.

Construction interest capitalized for the three month periods ended January 31, 2015 and 2014, respectively, was \$1.4 million and approximately \$778,000 for development projects completed and in progress. Construction interest capitalized for the nine month periods ended January 31, 2015 and 2014, respectively, was \$3.6 million and \$2.1 million for development projects completed and in progress.

Pending Acquisitions. The Company currently has signed purchase agreements for the acquisition of the following properties. These pending acquisitions are subject to various closing conditions and contingencies, and no assurances can be given that the transactions will be completed on the terms currently proposed, or at all:

- a 119-unit multi-family residential property in Bismarck, North Dakota, for a purchase price of \$15.0 million, of which approximately \$14.3 million is to be paid in cash with the remainder in limited partnership units of the Operating Partnership valued at approximately \$700,000;

- a 74-unit multi-family residential property in Grand Forks, North Dakota, for a purchase price of \$9.3 million, of which approximately \$8.9 million is to be paid in cash with the remainder in limited partnership units of the Operating Partnership valued at approximately \$400,000;

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Pending Dispositions. The Company currently has signed sales agreements for the disposition of the following properties. These pending dispositions are subject to various closing conditions and contingencies, and no assurances can be given that the transactions will be completed on the terms currently proposed, or at all:

- an office property in Minneapolis, Minnesota, for a sales price of \$7.0 million;
- a portfolio of seven office properties in Burnsville, Plymouth, Eagan and Minnetonka, Minnesota, for a sales price of \$26.6 million;
- an office property in Eagan, Minnesota, for a sales price of \$950,000; and
- a parcel of unimproved land in Eagan, Minnesota, for a sales price of \$325,000.

**NOTE 7 • DISCONTINUED OPERATIONS**

Prior to February 1, 2014, the Company reported, in discontinued operations, the results of operations and the related gains or losses of properties that had either been disposed of or classified as held for sale and otherwise met the classification of a discontinued operation. As a result of the adoption of ASU No. 2014-08, results of operations and gains or losses on sale for properties that are disposed or classified as held for sale in the ordinary course of business on or subsequent to February 1, 2014 would generally be included in continuing operations on the Company's consolidated statements of operations, to the extent such disposals did not meet the criteria for classification as a discontinued operation described above. See Note 2 for additional information.

During the nine months ended January 31, 2015, the Company applied ASU No. 2014-08 to the dispositions of nine properties and to the classification of thirteen properties as held for sale and did not record any discontinued operations. During the first three quarters of fiscal year 2014, the Company disposed of two multi-family residential properties, three office properties, twelve industrial properties and three retail properties that were classified as discontinued operations. During the quarter ended April 30, 2014, the Company applied ASU No. 2014-08 to one property that was classified as held for sale and did not record any discontinued operations. The following information shows the effect on net income and the gains or losses from the sale of properties classified as discontinued operations for the three and nine months ended January 31, 2014:

|  | (in thousands)                                    |  |
|--|---|--|
|  | Three<br>Months<br>Ended<br>January<br>31<br>2014 | Nine<br>Months<br>Ended<br>January<br>31<br>2014 |
| <b>REVENUE</b>   |   |  |
| Real estate rentals  | \$327   | \$3,173  |
| Tenant reimbursement   | 64  | 1,302  |
| <b>TOTAL REVENUE</b>   | <b>391</b>  | <b>4,475</b>                                     |
| <b>EXPENSES</b>  |   |  |
| Depreciation/amortization related to real estate investments   | 75  | 920  |
| Utilities  | 26  | 164  |
| Maintenance  | 35  | 299  |
| Real estate taxes  | 80  | 951  |
| Insurance  | 10  | 97   |
| Property management expenses                                   | 27  | 222  |
| Amortization related to non-real estate investments            | 2   | 90   |
| Impairment of real estate investments                          | 0   | 1,860  |
| <b>TOTAL EXPENSES</b>  | <b>255</b>  | <b>4,603</b>                                     |
| Operating income (loss)  | 136   | (128)  |
| Interest expense   | (29)  | (421)  |
| Income (loss) from discontinued operations before gain on sale | 107   | (549)  |
| Gain on sale of discontinued operations                        | 358   | 6,999  |
| <b>INCOME FROM DISCONTINUED OPERATIONS</b>                     | <b>\$465</b>                                      | <b>\$6,450</b>                                   |

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NOTE 8 • ACQUISITIONS, DEVELOPMENTS PLACED IN SERVICE AND DISPOSITIONS  
PROPERTY ACQUISITIONS

The Company added approximately \$41.3 million of real estate properties to its portfolio through property acquisitions during the nine months ended January 31, 2015, compared to \$35.1 million in the nine months ended January 31, 2014. The Company expensed approximately \$104,000 and \$160,000 of transaction costs related to the acquisitions in the nine months ended January 31, 2015 and 2014, respectively. The Company's acquisitions during the nine months ended January 31, 2015 and 2014 are detailed below.

Nine Months Ended January 31, 2015

| Acquisitions  | Date Acquired | (in thousands)         |                 | Form of Consideration |                      | Investment Allocation |                 |                   |
|---|---------------|------------------------|-----------------|-----------------------|----------------------|-----------------------|-----------------|-------------------|
|   |               | Total Acquisition Cost | Cash            | Units <sup>(1)</sup>  | Other <sup>(2)</sup> | Land                  | Building        | Intangible Assets |
| <b>Multi-Family Residential</b>                             |               |                        |                 |                       |                      |                       |                 |                   |
| 152 unit - Homestead Garden - Rapid City, SD <sup>(3)</sup> | 2014-06-02    | \$15,000               | \$5,092         | \$0                   | \$9,908              | \$655                 | \$14,139        | \$206             |
| 52 unit - Silver Springs - Rapid City, SD                   | 2014-06-02    | 3,280                  | 1,019           | 0                     | 2,261                | 215                   | 3,006           | 59                |
| 68 unit - Northridge - Bismarck, ND                         | 2014-09-12    | 8,500                  | 8,400           | 100                   | 0                    | 884                   | 7,516           | 100               |
|   |               | 26,780                 | 14,511          | 100                   | 12,169               | 1,754                 | 24,661          | 365               |
| <b>Unimproved Land</b>                                      |               |                        |                 |                       |                      |                       |                 |                   |
| Creekside Crossing - Bismarck, ND                           | 2014-05-22    | 4,269                  | 4,269           | 0                     | 0                    | 4,269                 | 0               | 0                 |
| PrairieCare Medical - Brooklyn Park, MN                     | 2014-06-05    | 2,616                  | 2,616           | 0                     | 0                    | 2,616                 | 0               | 0                 |
| 71 France Phase I - Edina, MN <sup>(4)</sup>                | 2014-06-12    | 1,413                  | 0               | 0                     | 1,413                | 1,413                 | 0               | 0                 |
| Monticello 7 <sup>th</sup> Addition - Monticello, MN        | 2014-10-09    | 1,660                  | 1,660           | 0                     | 0                    | 1,660                 | 0               | 0                 |
| 71 France Phase II & III - Edina, MN <sup>(4)</sup>         | 2014-11-04    | 3,309                  | 0               | 0                     | 3,309                | 3,309                 | 0               | 0                 |
| Minot 1525 24 <sup>th</sup> Ave SW - Minot, ND              | 2014-12-23    | 1,250                  | 1,250           | 0                     | 0                    | 1,250                 | 0               | 0                 |
|   |               | 14,517                 | 9,795           | 0                     | 4,722                | 14,517                | 0               | 0                 |
| <b>Total Property Acquisitions</b>                          |               | <b>\$41,297</b>        | <b>\$24,306</b> | <b>\$100</b>          | <b>\$16,891</b>      | <b>\$16,271</b>       | <b>\$24,661</b> | <b>\$365</b>      |

(1) Value of limited partnership units of the Operating Partnership at the acquisition date.

(2) Consists of assumed debt (Homestead Garden I: \$9.9 million, Silver Springs: \$2.3 million) and value of land contributed by the joint venture partner (71 France: \$4.7 million).

(3) At acquisition the Company adjusted the assumed debt to fair value and recognized approximately \$852,000 of goodwill.

(4) Land was contributed to a joint venture in which the Company has an approximately 52.6% interest. The joint venture is consolidated in IRET's financial statements.

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Nine Months Ended January 31, 2014

| Acquisitions   | Date Acquired | (in thousands)         |                            |                      |                      |                 |                     |                   |
|--|---------------|------------------------|----------------------------|----------------------|----------------------|-----------------|---------------------|-------------------|
|  |               | Total Acquisition Cost | Form of Consideration Cash | Units <sup>(1)</sup> | Other <sup>(2)</sup> | Investment Land | Allocation Building | Intangible Assets |
| <b>Multi-Family Residential</b>                      |               |                        |                            |                      |                      |                 |                     |                   |
| 71 unit - Alps Park - Rapid City, SD                 | 2013-05-01    | \$6,200                | \$2,920                    | \$3,280              | \$0                  | \$287           | \$5,551             | \$362             |
| 96 unit - Southpoint - Grand Forks, ND               | 2013-09-05    | 10,600                 | 10,400                     | 200                  | 0                    | 576             | 9,893               | 131               |
| 24 unit - Pinecone Villas - Sartell, MN              | 2013-10-31    | 2,800                  | 2,800                      | 0                    | 0                    | 584             | 2,191               | 25                |
|  |               | 19,600                 | 16,120                     | 3,480                | 0                    | 1,447           | 17,635              | 518               |
| <b>Healthcare</b>                                    |               |                        |                            |                      |                      |                 |                     |                   |
| 98,174 sq ft Legends at Heritage Place - Sartell, MN | 2013-10-31    | 11,863                 | 11,863                     | 0                    | 0                    | 970             | 10,511              | 382               |
| <b>Unimproved Land</b>                               |               |                        |                            |                      |                      |                 |                     |                   |
| Chateau II - Minot, ND                               | 2013-05-21    | 179                    | 179                        | 0                    | 0                    | 179             | 0                   | 0                 |
| Jamestown Unimproved - Jamestown, ND                 | 2013-08-09    | 700                    | 700                        | 0                    | 0                    | 700             | 0                   | 0                 |
| Red 20 - Minneapolis, MN <sup>(3)</sup>              | 2013-08-20    | 1,900                  | 0                          | 0                    | 1,900                | 1,900           | 0                   | 0                 |
| Legends at Heritage Place - Sartell, MN              | 2013-10-31    | 537                    | 537                        | 0                    | 0                    | 537             | 0                   | 0                 |
| Spring Creek Fruitland - Fruitland, IA               | 2014-01-21    | 335                    | 335                        | 0                    | 0                    | 335             | 0                   | 0                 |
|  |               | 3,651                  | 1,751                      | 0                    | 1,900                | 3,651           | 0                   | 0                 |
| <b>Total Property Acquisitions</b>                   |               | <b>\$35,114</b>        | <b>\$29,734</b>            | <b>\$3,480</b>       | <b>\$1,900</b>       | <b>\$6,068</b>  | <b>\$28,146</b>     | <b>\$900</b>      |

(1) Value of limited partnership units of the Operating Partnership at the acquisition date.

(2) Value of land contributed by the joint venture partner.

(3) Land was contributed to a joint venture in which the Company has an approximately 58.6% interest. The joint venture is consolidated in IRET's financial statements.

Acquisitions in the nine months ended January 31, 2015 and 2014 are immaterial to our real estate portfolio both individually and in the aggregate, and consequently no proforma information is presented. The results of operations from acquired properties are included in the Condensed Consolidated Statements of Operations as of their acquisition date. The revenue and net income of our acquisitions in the nine months ended January 31, 2015 and 2014, respectively, (excluding development projects placed in service) are detailed below.

|               | (in thousands)    |         |
|---------------|-------------------|---------|
|               | Nine Months Ended |         |
|               | January 31        |         |
|               | 2015              | 2014    |
| Total revenue | \$1,756           | \$1,149 |
| Net loss      | \$(27)            | \$(194) |

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DEVELOPMENT PROJECTS PLACED IN SERVICE

IRET Properties placed \$113.6 million and \$53.5 million of development projects in service during the nine months ended January 31, 2015 and 2014, respectively. The development projects placed in service during the nine months ended January 31, 2015 and 2014 are detailed below.

Nine Months Ended January 31, 2015

| Development Projects Placed in Service <sup>(1)</sup>         | Date Placed in Service | (in thousands) |                  |                   |
|---|------------------------|----------------|------------------|-------------------|
|   |                        | Land           | Building         | Development Cost  |
| <b>Multi-Family Residential</b>                               |                        |                |                  |                   |
| 44 unit - Dakota Commons - Williston, ND <sup>(2)</sup>       | 2014-07-15             | \$823          | \$9,596          | \$ 10,419         |
| 130 unit - Red 20 - Minneapolis, MN <sup>(3)</sup>            | 2014-11-21             | 1,900          | 26,430           | 28,330            |
| 233 unit - Commons at Southgate - Minot, ND <sup>(4)</sup>    | 2014-12-09             | 3,691          | 30,921           | 34,612            |
| 64 unit - Cypress Court II - St. Cloud, MN <sup>(5)</sup>     | 2015-01-01             | 447            | 6,191            | 6,638             |
| 165 unit - Arcata - Golden Valley, MN <sup>(6)</sup>          | 2015-01-01             | 2,088          | 28,296           | 30,384            |
|   |                        | 8,949          | 101,434          | 110,383           |
| <b>Commercial Retail</b>                                      |                        |                |                  |                   |
| 4,998 sq ft Minot Wells Fargo Bank - Minot, ND <sup>(7)</sup> | 2014-11-10             | 992            | 2,193            | 3,185             |
| <b>Total Development Projects Placed in Service</b>           |                        | <b>\$9,941</b> | <b>\$103,627</b> | <b>\$ 113,568</b> |

(1) Development projects that are placed in service in phases are excluded from this table until the entire project has been placed in service. See Note 6 for additional information on the Renaissance Heights project, which was partially placed in service during the fiscal year 2014 and the nine months ended January 31, 2015.

(2) Costs paid in prior fiscal years totaled \$8.1 million. Additional costs paid in fiscal year 2015 totaled \$2.3 million, for a total project cost at January 31, 2015 of \$10.4 million.

(3) Costs paid in prior fiscal years totaled \$12.2 million. Additional costs paid in fiscal year 2015 totaled \$16.1 million, for a total project cost at January 31, 2015 of \$28.3 million. The project is owned by a joint venture entity in which the Company has an approximately 58.6% interest. The joint venture is consolidated in IRET's financial statements.

(4) Costs paid in prior fiscal years totaled \$26.5 million, respectively. Additional costs paid in fiscal year 2015 totaled \$8.1 million, for a total project cost at January 31, 2015 of \$34.6 million. The project is owned by a joint venture entity in which the Company has an approximately 52.9% interest. The joint venture is consolidated in IRET's financial statements.

(5) Costs paid in prior fiscal years totaled \$1.2 million. Additional costs paid in fiscal year 2015 totaled \$5.5 million, for a total project cost at January 31, 2015 of \$6.6 million. The project is owned by a joint venture entity in which the Company has an approximately 86.1% interest. The joint venture is consolidated in IRET's financial statements.

(6) Costs paid in prior fiscal years totaled \$11.3 million, respectively. Additional costs paid in fiscal year 2015 totaled \$19.1 million, for a total project cost at January 31, 2015 of \$30.4 million.

(7) Costs paid in fiscal year 2015 totaled \$3.2 million, including land acquired in fiscal year 2013.

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Nine Months Ended January 31, 2014

| Development Projects Placed in Service                     | Date Placed in Service | (in thousands) |                 |                  |
|--|------------------------|----------------|-----------------|------------------|
|  |                        | Land           | Building        | Development Cost |
| <b>Multi-Family Residential</b>                            |                        |                |                 |                  |
| 108 unit - Landing at Southgate - Minot, ND <sup>(1)</sup> | 2013-09-04             | \$2,262        | \$12,864        | \$ 15,126        |
| 132 unit- Cypress Court - St. Cloud, MN <sup>(3)</sup>     | 2013-11-01             | 1,136          | 12,447          | 13,583           |
| 146 unit- River Ridge - Bismarck, ND <sup>(3)</sup>        | 2013-12-02             | 589            | 24,229          | 24,818           |
| <b>Total Development Projects Placed in Service</b>        |                        | <b>\$3,987</b> | <b>\$49,540</b> | <b>\$ 53,527</b> |

Costs paid in prior fiscal years totaled \$6.3 million. Costs paid in fiscal year 2014 totaled \$8.8 million for a total (1) project cost at January 31, 2014 of \$15.1 million. The project is owned by a joint venture entity in which the Company has an approximately 52.9% interest.

Costs paid in prior fiscal years totaled \$5.8 million. Costs paid in fiscal year 2014 totaled \$7.8 million for a total (2) project cost at January 31, 2014 of \$13.6 million. The project is owned by a joint venture entity in which the Company has an approximately 86.1% interest.

Costs paid in prior fiscal years totaled \$10.1 million. Costs paid in fiscal year 2014 totaled \$14.7 million for a total (3) project cost at January 31, 2014 of \$24.8 million.

**PROPERTY DISPOSITIONS**

During the third quarter of fiscal year 2015, the Company sold one office property and one retail property for a total sales price of \$10.0 million.

During the third quarter of fiscal year 2014, the Company sold two multi-family residential properties, three industrial properties and two retail properties for a total sales price of \$11.7 million. The following table details the Company's dispositions during the nine months ended January 31, 2015 and 2014:

Nine Months Ended January 31, 2015

| Dispositions  | Date Disposed | (in thousands) |                           |             |
|---|---------------|----------------|---------------------------|-------------|
|   |               | Sales Price    | Book Value and Sales Cost | Gain/(Loss) |
| <b>Multi-Family Residential</b>                         |               |                |                           |             |
| 83 unit - Lancaster - St. Cloud, MN                     | 2014-09-22    | \$4,451        | \$3,033                   | \$ 1,418    |
| <b>Office</b>   |               |                |                           |             |
| 73,338 sq ft Dewey Hill - Edina, MN                     | 2014-05-19    | 3,100          | 3,124                     | (24)        |
| 74,568 sq ft Wirth Corporate Center - Golden Valley, MN | 2014-08-29    | 4,525          | 4,695                     | (170)       |
| 79,297 sq ft Northgate I - Maple Grove, MN              | 2014-12-01    | 7,200          | 6,881                     | 319         |
|   |               | 14,825         | 14,700                    | 125         |
| <b>Industrial</b>                                       |               |                |                           |             |
| 198,600 sq ft Eagan 2785 & 2795 - Eagan, MN             | 2014-07-15    | 3,600          | 5,393                     | (1,793)     |
| <b>Retail</b>   |               |                |                           |             |
| 25,644 sq ft Weston Retail - Weston, WI                 | 2014-07-28    | n/a            | 1,176                     | (1,176)     |
| 52,000 sq ft Kalispell Retail - Kalispell, MT           | 2014-10-15    | 1,230          | 1,229                     | 1           |
| 34,226 sq ft Fargo Express Center & SC Pad - Fargo, ND  | 2014-11-18    | 2,843          | 2,211                     | 632         |
|   |               | 4,073          | 4,616                     | (543)       |

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|                                      |            |          |          |          |
|--------------------------------------|------------|----------|----------|----------|
| Unimproved Land                      |            |          |          |          |
| Kalispell Unimproved - Kalispell, MT | 2014-10-15 | 670      | 670      | 0        |
| Total Property Dispositions          |            | \$27,619 | \$28,412 | \$ (793) |
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Nine Months Ended January 31, 2014

| Dispositions   | Date<br>Disposed | (in thousands)  |                                       | Gain/(Loss)     |
|--|------------------|-----------------|---------------------------------------|-----------------|
|  |                  | Sales<br>Price  | Book<br>Value<br>and<br>Sales<br>Cost |                 |
| <b>Multi-Family Residential</b>                                |                  |                 |                                       |                 |
| 84 unit - East Park - Sioux Falls, SD                          | 2013-12-18       | \$2,214         | \$2,358                               | \$ (144)        |
| 48 unit - Sycamore Village - Sioux Falls, SD                   | 2013-12-18       | 1,296           | 1,380                                 | (84)            |
|  |                  | 3,510           | 3,738                                 | (228)           |
| <b>Office</b>  |                  |                 |                                       |                 |
| 121,669 sq ft Bloomington Business Plaza - Bloomington, MN     | 2013-09-12       | 4,500           | 7,339                                 | (2,839)         |
| 118,125 sq ft Nicollet VII - Burnsville, MN                    | 2013-09-12       | 7,290           | 6,001                                 | 1,289           |
| 42,929 sq ft Pillsbury Business Center - Bloomington, MN       | 2013-09-12       | 1,160           | 1,164                                 | (4)             |
|  |                  | 12,950          | 14,504                                | (1,554)         |
| <b>Industrial</b>  |                  |                 |                                       |                 |
| 41,880 sq ft Bodycote Industrial Building- Eden Prairie, MN    | 2013-05-13       | 3,150           | 1,375                                 | 1,775           |
| 42,244 sq ft Fargo 1320 45 <sup>th</sup> Street N - Fargo, ND  | 2013-05-13       | 4,700           | 4,100                                 | 600             |
| 49,620 sq ft Metal Improvement Company - New Brighton, MN      | 2013-05-13       | 2,350           | 1,949                                 | 401             |
| 172,057 sq ft Roseville 2929 Long Lake Road - Roseville, MN    | 2013-05-13       | 9,275           | 9,998                                 | (723)           |
| 322,751 sq ft Brooklyn Park 7401 Boone Ave - Brooklyn Park, MN | 2013-09-12       | 12,800          | 12,181                                | 619             |
| 50,400 sq ft Cedar Lake Business Center - St. Louis Park, MN   | 2013-09-12       | 2,550           | 2,607                                 | (57)            |
| 35,000 sq ft API Building - Duluth, MN                         | 2013-09-24       | 2,553           | 1,488                                 | 1,065           |
| 59,292 sq ft Lighthouse - Duluth, MN                           | 2013-10-08       | 1,825           | 1,547                                 | 278             |
| 606,006 sq ft Dixon Avenue Industrial Park - Des Moines, IA    | 2013-10-31       | 14,675          | 10,328                                | 4,347           |
| 41,685 sq ft Winsted Industrial Building - Winsted, MN         | 2014-01-17       | 725             | 747                                   | (22)            |
| 69,984 sq ft Minnetonka 13600 County Road 62 - Minnetonka, MN  | 2014-01-30       | 3,800           | 3,084                                 | 716             |
| 42,510 sq ft Clive 2075 NW 94 <sup>th</sup> Street - Clive, IA | 2014-01-30       | 2,735           | 2,675                                 | 60              |
|  |                  | 61,138          | 52,079                                | 9,059           |
| <b>Retail</b>  |                  |                 |                                       |                 |
| 23,187 sq ft Eagan Community - Eagan, MN                       | 2013-05-14       | 2,310           | 2,420                                 | (110)           |
| 10,625 sq ft Anoka Strip Center- Anoka, MN                     | 2013-12-23       | 325             | 347                                   | (22)            |
| 8,400 sq ft Burnsville 2 Strip Center - Burnsville, MN         | 2014-01-08       | 650             | 796                                   | (146)           |
|  |                  | 3,285           | 3,563                                 | (278)           |
| <b>Total Property Dispositions</b>                             |                  | <b>\$80,883</b> | <b>\$73,884</b>                       | <b>\$ 6,999</b> |

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**NOTE 9 • MORTGAGES PAYABLE AND LINE OF CREDIT**

Most of the properties owned by the Company serve as collateral for separate mortgage loans on single properties or groups of properties. The majority of these mortgages payable are non-recourse to the Company, other than for standard carve-out obligations such as fraud, waste, failure to insure, environmental conditions and failure to pay real estate taxes. As of January 31, 2015, the management of the Company believes there are no defaults or material compliance issues in regard to any mortgages payable. Interest rates on mortgages payable range from 2.42% to 8.25%, and the mortgages have varying maturity dates from the current fiscal year through July 1, 2036.

Of the mortgages payable, the balances of fixed rate mortgages totaled \$927.7 million at January 31, 2015 and \$977.2 million at April 30, 2014. The balances of variable rate mortgages totaled \$78.5 million and \$20.5 million as of January 31, 2015 and April 30, 2014, respectively. The Company does not utilize derivative financial instruments to mitigate its exposure to changes in market interest rates. Most of the fixed rate mortgages have substantial pre-payment penalties. As of January 31, 2015, the weighted average rate of interest on the Company's mortgage debt was 5.17%, compared to 5.37% on April 30, 2014. The aggregate amount of required future principal payments on mortgages payable as of January 31, 2015, is as follows:

| Fiscal year ended April 30, | (in<br>thousands) |
|-----------------------------|-------------------|
| 2015 (remainder)            | \$22,390          |
| 2016                        | 130,203           |
| 2017                        | 203,510           |
| 2018                        | 88,039            |
| 2019                        | 134,503           |
| Thereafter                  | 427,534           |
| Total payments              | \$1,006,179       |

In the table above, included in the approximately \$203.5 million (as of January 31, 2015) of future principal payments on mortgages payable in fiscal year 2017 is a non-recourse \$122.6 million CMBS loan, for which nine of the Company's office properties serve as collateral and under which a special-purpose subsidiary of the Company is the borrower. This loan matures in October 2016. Because the loan amount significantly exceeds the Company's current estimate of the fair value of this nine-property portfolio, the Company contacted the master servicer to initiate discussions on various alternatives with regard to the loan. During the first quarter of fiscal year 2015, the Company was notified that the loan has been transferred to the special servicer. The Company cannot predict the outcome of discussions with the special servicer regarding the loan. To date the borrower is current on all payments under the loan.

In addition to the individual first mortgage loans comprising the Company's \$1.0 billion of mortgage indebtedness, the Company also has a revolving, multi-bank line of credit with First International Bank and Trust, Watford City, North Dakota, as lead bank, which had, as of January 31, 2015, lending commitments of \$90.0 million. This facility is not included in the Company's mortgage indebtedness total. As of January 31, 2015, the line of credit was secured by mortgages on 15 properties; under the terms of the line of credit, properties may be added and removed from the collateral pool with the agreement of the lenders. Participants in this credit facility as of January 31, 2015 included, in addition to First International Bank, the following financial institutions: The Bank of North Dakota; First Western Bank and Trust; Dacotah Bank; Highland Bank; American State Bank & Trust Company; Town & Country Credit Union and United Community Bank. As of January 31, 2015, the line of credit had an interest rate of 4.75% and a minimum outstanding principal balance requirement of \$17.5 million, and as of January 31, 2015 and April 30, 2014, the Company had borrowed \$50.5 million and \$22.5 million, respectively. The facility includes covenants and restrictions requiring the Company to achieve on a fiscal and calendar quarter basis a debt service coverage ratio on borrowing base collateral of 1.25x in the aggregate and 1.00x on individual assets in the collateral pool, and the Company is also required to maintain minimum depository account(s) totaling \$6.0 million with First International, of which \$1.5 million is to be held in a non-interest bearing account. As of January 31, 2015, the Company believes it was in compliance with the facility covenants.

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NOTE 10 • FAIR VALUE MEASUREMENTS

ASC 820, Fair Value Measurement and Disclosures defines and establishes a framework for measuring fair value. The objective of fair value is to determine the price that would be received upon the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (the exit price). ASC 820 establishes a fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three levels, as follows:

Level 1: Quoted prices in active markets for identical assets

Level 2: Significant other observable inputs

Level 3: Significant unobservable inputs

Fair value estimates may be different than the amounts that may ultimately be realized upon sale or disposition of the assets and liabilities.

Fair Value Measurements on a Recurring Basis

The Company had no assets or liabilities recorded at fair value on a recurring basis at January 31, 2015 and April 30, 2014.

Fair Value Measurements on a Nonrecurring Basis

Non-financial assets and liabilities measured at fair value on a nonrecurring basis at January 31, 2015 consisted of real estate investments that were written-down to estimated fair value during the nine months ended January 31, 2015.

Non-financial assets measured at fair value on a nonrecurring basis at April 30, 2014 consisted of real estate investments and real estate held for sale that was written-down to estimated fair value during fiscal year 2014. See Note 2 for additional information on impairment losses recognized during fiscal years 2015 and 2014. The aggregate fair value of these assets by their levels in the fair value hierarchy are as follows:

(in thousands)

January 31, 2015

| Total | Level 1 | Level 2 | Level 3 |
|-------|---------|---------|---------|
|-------|---------|---------|---------|

ASSETS:

|                           |        |      |      |        |
|---------------------------|--------|------|------|--------|
| Real estate investments   | \$695  | \$ 0 | \$ 0 | \$695  |
| Real estate held for sale | 44,259 | 0    | 0    | 44,259 |

(in thousands)

April 30, 2014

| Total | Level 1 | Level 2 | Level 3 |
|-------|---------|---------|---------|
|-------|---------|---------|---------|

ASSETS:

|                           |          |      |      |          |
|---------------------------|----------|------|------|----------|
| Real estate investments   | \$89,537 | \$ 0 | \$ 0 | \$89,537 |
| Real estate held for sale | 2,951    | 0    | 0    | 2,951    |

Financial Assets and Liabilities Not Measured at Fair Value

The following methods and assumptions were used to estimate the fair value of each class of financial assets and liabilities. The fair values of our financial instruments approximate their carrying amount in our consolidated financial statements except for debt.

Cash and Cash Equivalents. The carrying amount approximates fair value because of the short maturity.

Other Investments. The carrying amount, or cost plus accrued interest, of the certificates of deposit approximates fair value.

Other Debt. For variable rate loans that re-price frequently, fair values are based on carrying values. The fair value of fixed rate loans is estimated based on the discounted cash flows of the loans using relevant treasury interest rates plus credit spreads (Level 2).

Lines of Credit. The carrying amount approximates fair value because the variable rate debt re-prices frequently.

Mortgages Payable. For variable rate loans that re-price frequently, fair values are based on carrying values. The fair value of fixed rate loans is estimated based on the discounted cash flows of the loans using relevant treasury interest rates plus credit spreads (Level 2).

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The estimated fair values of the Company's financial instruments as of January 31, 2015 and April 30, 2014, are as follows:

|                              | (in thousands)   |            |                 |            |
|------------------------------|------------------|------------|-----------------|------------|
|                              | January 31, 2015 |            | April 30, 2014  |            |
|                              | Carrying Amount  | Fair Value | Carrying Amount | Fair Value |
| <b>FINANCIAL ASSETS</b>      |                  |            |                 |            |
| Cash and cash equivalents    | \$52,148         | \$52,148   | \$47,267        | \$47,267   |
| Other investments            | 329              | 329        | 329             | 329        |
| <b>FINANCIAL LIABILITIES</b> |                  |            |                 |            |
| Other debt                   | 132,183          | 131,856    | 63,132          | 63,250     |
| Line of credit               | 50,500           | 50,500     | 22,500          | 22,500     |
| Mortgages payable            | 1,006,179        | 1,217,825  | 997,689         | 1,130,262  |

**NOTE 11 • REDEEMABLE NONCONTROLLING INTERESTS**

Redeemable noncontrolling interests on our Consolidated Balance Sheets represent the noncontrolling interest in a joint venture of the Company in which the Company's unaffiliated partner, at its election, could require the Company to buy its interest at a purchase price to be determined by an appraisal conducted in accordance with the terms of the agreement, or at a negotiated price. Redeemable noncontrolling interests are presented at the greater of their carrying amount or redemption value at the end of each reporting period. Changes in the value from period to period are charged to common shares of beneficial interest on our Consolidated Balance Sheets. During fiscal year 2014 the Company identified an error pertaining to the reporting for a noncontrolling interest in a consolidated real estate joint venture formed in the fourth quarter of fiscal year 2013 for which the holder of such interest has the right to require the Company to acquire the interest at fair value twelve months after the final certificate of occupancy is obtained for the joint venture's development project. This error resulted in an overstatement of equity and offsetting understatement of the line entitled "redeemable noncontrolling interests – consolidated real estate entities" in the mezzanine section of the Company's consolidated balance sheet of \$6.1 million as of January 31, 2014. The Company revised its previously issued statement of equity to correct the effect of this error. See Note 2 for additional information.

As of January 31, 2015 and 2014, the estimated redemption value of the redeemable noncontrolling interests was \$6.3 million and \$6.1 million, respectively. Below is a table reflecting the activity of the redeemable noncontrolling interests.

|                             | (in thousands) |
|-----------------------------|----------------|
| Balance at April 30, 2014   | \$ 6,203       |
| Net income                  | 137            |
| Balance at January 31, 2015 | \$ 6,340       |

|                             | (in thousands) |
|-----------------------------|----------------|
| Balance at April 30, 2013   | \$ 5,937       |
| Net income                  | 176            |
| Balance at January 31, 2014 | \$ 6,113       |

**NOTE 12 • SUBSEQUENT EVENTS**

**Common and Preferred Share Distributions.** On February 13, 2015, the Company's Board of Trustees declared the following distributions:

| Class of shares/units                       | Quarterly Amount per Share or Unit | Record Date    | Payment Date   |
|---|------------------------------------|----------------|----------------|
| Common shares and limited partnership units | \$0.1300                           | March 16, 2015 | April 1, 2015  |
| <b>Preferred shares:</b>                    |                                    |                |                |
| Series A                                    | \$0.5156                           | March 16, 2015 | March 31, 2015 |
| Series B                                    | \$0.4968                           | March 16, 2015 | March 31, 2015 |

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Completed Dispositions. On February 5, 2015, a joint venture entity in which the Company has an approximately 51% interest sold the Jamestown Medical Office Building, a healthcare property in Jamestown, North Dakota, for a sale price of \$12.8 million. On February 27, 2015, the Company sold the Weston Walgreens Retail Community, a retail property in Weston, Wisconsin, for a sale price of \$5.3 million. On March 2, 2015, the Company sold Northgate II, an office property in Maple Grove, Minnesota, for a sale price of \$2.7 million.

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## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with the unaudited condensed consolidated financial statements included in this report, as well as the Company's audited financial statements for the fiscal year ended April 30, 2014, which are included in the Company's Form 10-K filed with the SEC on June 30, 2014.

**Forward Looking Statements.** Certain matters included in this discussion are forward looking statements within the meaning of the federal securities laws. Although we believe that the expectations reflected in the following statements are based on reasonable assumptions, we can give no assurance that the expectations expressed will actually be achieved. Many factors may cause actual results to differ materially from our current expectations, including general economic conditions, local real estate conditions, the general level of interest rates and the availability of financing and various other economic risks inherent in the business of owning and operating investment real estate.

### Overview

IRET is a self-advised equity REIT engaged in owning and operating income-producing real estate properties. Our investments include multi-family residential properties and commercial properties located primarily in the upper Midwest states of Minnesota and North Dakota. Our properties are diversified by type and location. As of January 31, 2015, our real estate portfolio consisted of 99 multi-family residential properties containing 11,765 apartment units and having a total real estate investment amount net of accumulated depreciation of \$759.7 million, and 160 commercial properties containing approximately 9.8 million square feet of leasable space and having a total real estate investment amount net of accumulated depreciation of \$894.3 million.

Our primary source of income and cash is rents associated with multi-family residential and commercial leases. Our business objective is to increase shareholder value by employing a disciplined investment strategy. This strategy is focused on growing assets in desired geographical markets, concentrating on multi-family residential and healthcare properties, and adhering to targeted returns in acquiring properties. We have paid quarterly distributions continuously since our first distribution in 1971.

### Critical Accounting Policies

In preparing the condensed consolidated financial statements management has made estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates. A summary of the Company's critical accounting policies is included in the Company's Form 10-K for the fiscal year ended April 30, 2014, filed with the SEC on June 30, 2014, in Management's Discussion and Analysis of Financial Condition and Results of Operations. There have been no significant changes to those policies during the three months ended January 31, 2015.

### Significant Events and Transactions during the Three Months Ended January 31, 2015 and 2014

Summarized below are the Company's significant transactions and events during the third quarters of fiscal years 2015 and 2014:

#### Three Months Ended January 31, 2015

A total of 473 apartment units placed in service at the following development projects: Commons at Southgate in Minot, North Dakota; Red 20 in Minneapolis, Minnesota; Cypress Court II in St. Cloud, Minnesota; Arcata in Golden Valley, Minnesota and Renaissance Heights in Williston, North Dakota. The 4,998-square foot Minot Wells Fargo Bank retail property placed in service in Minot, North Dakota.

The announcement that the Company is exploring the calendar year 2015 disposition of substantially all of its office and retail properties, in an update to its current strategic plan, under which the Company has been directing new investments primarily toward multi-family residential and healthcare properties.

The disposition of an office property in Maple Grove, Minnesota and a retail property in Fargo, North Dakota for sales prices totaling \$10.0 million.

#### Three Months Ended January 31, 2014

The resignations from the Company's Board of Trustees of W. David Scott and John Reed, and the election of Terrance P. Maxwell to the Board of Trustees.

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The substantial completion of two development projects placed in service during the quarter: the 132-unit Cypress Court multi-family residential property in St. Cloud, Minnesota, owned by a joint venture entity in which the Company has an approximately 86% interest, and the 146-unit River Ridge multi-family residential property in Bismarck, North Dakota.

The sale of two multi-family residential properties, three commercial industrial properties and two commercial retail properties for a total sales price of \$11.7 million.

The entrance into an Amended and Restated Loan Agreement with First International Bank & Trust, a North Dakota state bank, as lender, under which First International has agreed to provide a revolving credit facility with a commitment amount at the time of close of \$72 million. At the discretion of First International, the total commitment available under the credit facility may be increased to \$75 million. The Loan Agreement amends and restates IRET Properties' previous secured line of credit with First International and participant banks.

#### Market Conditions and Outlook

During the third quarter of fiscal year 2015, continued high occupancy levels in the Company's multi-family residential portfolio allowed the Company to implement selected rent increases, and the Company expects to see continued favorable results in this segment in the remainder of fiscal year 2015. Demand was strong for the approximately 798 apartment units the Company placed in service during fiscal year 2015. The following development projects were completed in the third quarter, with a total of 592 units available for lease: the Commons at Southgate project in Minot, North Dakota; Cypress Court in St. Cloud, Minnesota; Arcata in Golden Valley, Minnesota and Red 20 in Minneapolis, Minnesota. The Company's Renaissance Heights project in Williston, North Dakota has 162 out of 288 planned units currently in service. However, the Company's ability to maintain occupancy levels and selectively raise rents remains dependent on continued healthy employment and wage growth. The Company has continued to observe considerable multi-family development activity in the Company's markets, and as this new construction is completed and leased, the Company will experience increased competition for residents. However, based on information available to the Company, it appears that apartment developers in our markets are currently seeing increases in construction costs for potential new apartment developments, which may slow new developments in our markets.

The Company's office segment, mostly concentrated in Minnesota, continued to be affected by a number of adverse macro conditions. Demand for office space continues to be limited, with space absorption in the Minneapolis market in particular concentrated in prime locations, and suburban office properties continuing to lag in terms of occupancy. Businesses appear to be maintaining their goal of increasing the density of their work spaces by placing more employees in less total square footage, and downsizing upon lease renewals. The Company expects this erosion in demand for office space to continue, which we expect will impede increases on rental rates in our office portfolio. As a result, although the Company has experienced some modest growth in occupancy levels during the third quarter of fiscal year 2015 compared to the third quarter of fiscal year 2014, on an all-properties basis, the Company continues to expect a slow and uneven recovery in its office segment.

The Company's healthcare segment consists of medical office properties and senior housing facilities. The medical office sector remains stable with modest increases in both occupancy and rents. The Company's senior housing assets continue to benefit from the strengthening recovery in the housing market, as occupancy trends are closely aligned with the ability of seniors to sell their homes in anticipation of moving to a senior care facility.

Both the industrial and retail property markets continue to show signs of recovery. The Company's industrial properties are located primarily in the Minneapolis market, and all of these Minneapolis properties are 100% leased. The demand for bulk warehouse and manufacturing space in the Company's markets is strong, with rents generally rising. The retail recovery is evident in regard to the Company's Minneapolis-metro and grocery-anchored retail properties, which are performing well. Locations outside the Minneapolis-metro area, however, continue to experience less demand, with the recession-driven contraction not yet fully reversed.

In January 2015, the Company announced that it is exploring a calendar year 2015 disposition of substantially all of its commercial office and retail properties, in an update to its current strategic plan, under which the Company has been directing new investments primarily toward multifamily residential and healthcare properties. The Company intends to use the proceeds from dispositions to continue portfolio deleveraging and for developing and acquiring high-quality assets in the Company's multi-family, industrial and healthcare segments.

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re-development properties, have achieved a target level of occupancy of 90% for multi-family residential properties and 85% for office, healthcare, industrial and retail properties.

For the comparison of the three and nine months ended January 31, 2015 and 2014, all or a portion of 37 properties were non-same-store, of which non-same-store properties 11 were redevelopment or in-service development properties.

While there are judgments to be made regarding changes in designation, we typically remove properties from same-store to non-same-store when redevelopment has or is expected to have a significant impact on property net operating income within the fiscal year. Acquisitions are moved to same-store once we have owned the property for the entirety of comparable periods and the property is not under significant redevelopment or expansion. Our development projects in progress are not included in our non-same-store properties category until they are placed in-service, which occurs upon the substantial completion of a commercial property, and upon receipt of a certificate of occupancy, in the case of a multi-family residential development project. They are then subsequently moved from non-same-store to same-store when the property has been in-service for the entirety of both periods being compared and has reached the target level of occupancy specified above.

RESULTS OF OPERATIONS

Consolidated Results of Operations for the Three and Nine Months Ended January 31, 2015 and 2014

The discussion that follows is based on our consolidated results of operations for the three and nine months ended January 31, 2015 and 2014.

|  | (in thousands, except percentages) |               |                |               |                   |                |               |             |
|--|------------------------------------|---------------|----------------|---------------|-------------------|----------------|---------------|-------------|
|  | Three Months Ended                 |               |                |               | Nine Months Ended |                |               |             |
|  | January 31                         |               | 2015 vs 2014   |               | January 31        |                | 2015 vs 2014  |             |
|  | 2015                               | 2014          | \$             | %             | 2015              | 2014           | \$            | %           |
|  |                                    | Change        | Change         |               |                   | Change         | Change        |             |
| Real estate rentals  | \$60,440                           | \$56,156      | \$4,284        | 7.6%          | \$176,401         | \$164,256      | \$12,145      | 7.4%        |
| Tenant reimbursement   | 11,513                             | 11,473        | 40             | 0.3%          | 33,431            | 34,243         | (812)         | (2.4)%      |
| TRS senior housing revenue   | 963                                | 804           | 159            | 19.8%         | 2,599             | 804            | 1,795         | 223.3%      |
| <b>TOTAL REVENUE</b>   | <b>72,916</b>                      | <b>68,433</b> | <b>4,483</b>   | <b>6.6%</b>   | <b>212,431</b>    | <b>199,303</b> | <b>13,128</b> | <b>6.6%</b> |
| Depreciation/amortization related to real estate investments   | 16,834                             | 16,733        | 101            | 0.6%          | 49,846            | 51,156         | (1,310)       | (2.6)%      |
| Utilities  | 5,367                              | 5,042         | 325            | 6.4%          | 15,141            | 15,173         | (32)          | (0.2)%      |
| Maintenance  | 7,799                              | 7,828         | (29)           | (0.4)%        | 23,391            | 22,719         | 672           | 3.0%        |
| Real estate taxes  | 8,816                              | 7,679         | 1,137          | 14.8%         | 25,583            | 24,415         | 1,168         | 4.8%        |
| Insurance  | 1,479                              | 1,190         | 289            | 24.3%         | 4,560             | 3,904          | 656           | 16.8%       |
| Property management expenses   | 4,746                              | 4,064         | 682            | 16.8%         | 13,731            | 12,383         | 1,348         | 10.9%       |
| Other property expenses  | 227                                | 124           | 103            | 83.1%         | 783               | 304            | 479           | 157.6%      |
| TRS senior housing expenses  | 825                                | 671           | 154            | 23.0%         | 2,243             | 671            | 1,572         | 234.3%      |
| General and administrative   | 3,242                              | 2,935         | 307            | 10.5%         | 10,986            | 9,572          | 1,414         | 14.8%       |
| Amortization related to non-real estate investments  | 916                                | 756           | 160            | 21.2%         | 2,628             | 2,500          | 128           | 5.1%        |
| Impairment of real estate investments  | 540                                | 4,798         | (4,258)        | (88.7)%       | 6,105             | 4,798          | 1,307         | 27.2%       |
| <b>TOTAL EXPENSES</b>  | <b>50,791</b>                      | <b>51,820</b> | <b>(1,029)</b> | <b>(2.0)%</b> | <b>154,997</b>    | <b>147,595</b> | <b>7,402</b>  | <b>5.0%</b> |
| Gain on involuntary conversion   | 0                                  | 1,514         | (1,514)        | (100.0)%      | 0                 | 2,480          | (2,480)       | (100.0)%    |
| Operating income   | 22,125                             | 18,127        | 3,998          | 22.1%         | 57,434            | 54,188         | 3,246         | 6.0%        |
| Interest expense   | (14,595)                           | (15,130)      | 535            | (3.5)%        | (43,858)          | (44,525)       | 667           | (1.5)%      |
| Interest income  | 561                                | 573           | (12)           | (2.1)%        | 1,681             | 1,346          | 335           | 24.9%       |
| Other income   | 109                                | 34            | 75             | 220.6%        | 376               | 123            | 253           | 205.7%      |
| Income before gain (loss) on sale of real estate and other investments and income from discontinued operations | 8,200                              | 3,604         | 4,596          | 127.5%        | 15,633            | 11,132         | 4,501         | 40.4%       |
| Gain (loss) on sale of real estate and other investments   | 951                                | 0             | 951            | n/a           | (811)             | 0              | (811)         | n/a         |

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|   |         |         |       |          |         |         |         |          |
|---|---------|---------|-------|----------|---------|---------|---------|----------|
| Income from continuing operations   | 9,151   | 3,604   | 5,547 | 153.9%   | 14,822  | 11,132  | 3,690   | 33.1%    |
| Income from discontinued operations   | 0       | 465     | (465) | (100.0)% | 0       | 6,450   | (6,450) | (100.0)% |
| NET INCOME  | 9,151   | 4,069   | 5,082 | 124.9%   | 14,822  | 17,582  | (2,760) | (15.7)%  |
| Net income attributable to noncontrolling interests – Operating Partnership             | (657)   | (130)   | (527) | 405.4%   | (618)   | (1,406) | 788     | (56.0)%  |
| Net income attributable to noncontrolling interests – consolidated real estate entities | (123)   | (436)   | 313   | (71.8)%  | (870)   | (808)   | (62)    | 7.7%     |
| Net income attributable to Investors Real Estate Trust                                  | 8,371   | 3,503   | 4,868 | 139.0%   | 13,334  | 15,368  | (2,034) | (13.2)%  |
| Dividends to preferred shareholders   | (2,879) | (2,879) | 0     | 0.0%     | (8,636) | (8,636) | 0       | 0.0%     |
| NET INCOME AVAILABLE TO COMMON SHAREHOLDERS   | \$5,492 | \$624   | 4,868 | 780.1%   | \$4,698 | \$6,732 | (2,034) | (30.2)%  |

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Revenues. Revenues for the three months ended January 31, 2015 were \$72.9 million compared to \$68.4 million in the three months ended January 31, 2014, an increase of \$4.5 million or 6.6%. The increase in revenue for the three months ended January 31, 2015 resulted both from properties acquired and development projects placed in service in Fiscal 2015 and 2014 and from same-store properties, as shown in the table below.

|   | (in<br>thousands)<br>Increase in<br>Total<br>Revenue<br>Three<br>Months<br>ended<br>January 31,<br>2015 |
|---|---|
| Rent in Fiscal 2015 primarily from properties acquired and development projects placed in service in Fiscal 2015  | \$ 2,153  |
| Rent in Fiscal 2015 primarily from properties acquired and development projects placed in service in Fiscal 2014 in excess of that received in Fiscal 2014 from the same properties | 1,778   |
| Increase in rent on same-store properties, excluding straight line rent <sup>(1)</sup>  | 1,925   |
| Net change in straight line rent on same-store properties <sup>(1)</sup>  | (1,052)   |
| Decrease in rent from properties sold or classified as held for sale in Fiscal 2015 and 2014  | (480)   |
| TRS senior housing revenue in excess of that received in Fiscal 2014 <sup>(2)</sup>   | 159   |
| Net increase in total revenue   | \$ 4,483  |

(1) See analysis of NOI by segment on pages 37-42 of the MD&A for additional information.

(2) See discussion in TRS Senior Housing Expenses paragraph below.

Revenues for the nine months ended January 31, 2015 were \$212.4 million compared to \$199.3 million in the nine months ended January 31, 2014, an increase of \$13.1 million or 6.6%. The increase in revenue for the nine months ended January 31, 2015 resulted both from properties acquired and development projects placed in service in Fiscal 2015 and 2014 and from same-store properties, as shown in the table below.

|   | (in<br>thousands)<br>Increase in<br>Total<br>Revenue<br>Nine<br>Months<br>ended<br>January 31,<br>2015 |
|---|--|
| Rent in Fiscal 2015 primarily from properties acquired and development projects placed in service in Fiscal 2015  | \$ 3,822   |
| Rent in Fiscal 2015 primarily from properties acquired and development projects placed in service in Fiscal 2014 in excess of that received in Fiscal 2014 from the same properties | 6,108  |
| Increase in rent on same-store properties, excluding straight line rent <sup>(1)</sup>  | 4,018  |
| Net change in straight line rent on same-store properties <sup>(1)</sup>  | (2,097)  |
| Decrease in rent from properties sold or classified as held for sale in Fiscal 2015 and 2014  | (518)  |
| TRS senior housing revenue in excess of that received in Fiscal 2014 <sup>(2)</sup>   | 1,795  |

Net increase in total revenue \$ 13,128

(1) See analysis of NOI by segment on pages 37-42 of the MD&A for additional information.

(2) See discussion in TRS Senior Housing Expenses paragraph below.

Depreciation/Amortization Related to Real Estate Investments. Depreciation/amortization related to real estate investments increased by 0.6% to \$16.8 million in the third quarter of fiscal year 2015, compared to \$16.7 million in the same period of the prior fiscal year.

Depreciation/amortization related to real estate investments decreased by 2.6% to \$49.8 million in the nine months ended January 31, 2015, compared to \$51.2 million in the same period of the prior fiscal year. This decrease was primarily attributable to a change in the lives of several intangible assets due to a change in lease terms in the first quarter of fiscal year 2014.

Utilities. Utilities increased by 6.4% to \$5.4 million in the third quarter of fiscal year 2015, compared to \$5.0 million in the same period of the prior fiscal year. Same-store properties realized an increase of \$179,000 compared to the prior year which was primarily attributable to an increase in heating costs while an increase of \$146,000 was attributable to the addition of new income producing real estate properties.

Utilities decreased by 0.2% to \$15.1 million in the nine months ended January 31, 2015 compared to \$15.2 million in the same period of the prior fiscal year. Same-store properties realized a decrease of \$372,000 compared to the prior year which was primarily attributable to a decrease in utility rates. This decrease was offset by an increase of \$340,000 attributable to the addition of new income producing real estate properties.

Maintenance. Maintenance expenses decreased by 0.4% to \$7.8 million in the third quarter of fiscal year 2015 when compared to the same period of the prior fiscal year. An increase of \$5,000 was attributable to same-store properties compared to the prior year while

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a decrease of \$34,000 was attributable to fewer general maintenance items being completed at new income producing real estate properties compared to the prior year.

Maintenance expenses increased by 3.0% to \$23.4 million in the nine months ended January 31, 2015 compared to \$22.7 million in the same period of the prior fiscal year. An increase of \$428,000 was attributable to more general maintenance items being completed at same-store properties compared to the prior year while an increase of \$244,000 was attributable to the addition of new income producing real estate properties.

**Real Estate Taxes.** Real estate taxes increased by 14.8% to \$8.8 million in the third quarter of fiscal year 2015, compared to \$7.7 million in the same period of the prior fiscal year. An increase of \$93,000 was attributable to the addition of new income-producing real estate properties. An increase of \$1.0 million was realized at same-store properties compared to the prior fiscal year primarily due to increased property valuations in our North Dakota markets. A property tax relief credit was in effect in the State of North Dakota for both periods, but the higher property valuations more than offset the effect of the credit for the third quarter of fiscal year 2015.

Real estate taxes increased by 4.8% to \$25.6 million in the nine months ended January 31, 2015 compared to \$24.4 million in the same period of the prior fiscal year. An increase of \$248,000 was attributable to the addition of new income-producing real estate properties. An increase of \$920,000 was realized at same-store properties compared to the prior year primarily due to increased property valuations in our North Dakota markets. As mentioned above, a property tax relief credit was in effect in the State of North Dakota for both periods, but the higher property valuations more than offset the effect of the credit for the nine months ended January 31, 2015.

**Insurance.** Insurance expense increased by 24.3% to \$1.5 million in the third quarter of fiscal year 2015, compared to \$1.2 million in the same period of the prior fiscal year. Increased insurance premiums at same-store properties accounted for an increase of \$149,000. While premium rates at same-store properties decreased, total premium costs rose due to an increase in insured values compared to the same period in the prior fiscal year. Deductibles paid on insurance claims increased by \$89,000 when compared to the prior year and an increase of \$51,000 was attributable to the addition of new income-producing real estate properties.

Insurance expense increased by 16.8% to \$4.6 million in the nine months ended January 31, 2015 compared to \$3.9 million in the same period of the prior fiscal year. Approximately \$443,000 of the increase was attributable to increased insurance premiums at same-store properties. As mentioned above, while premium rates at same-store properties decreased, total premium costs rose due to an increase in insured values compared to the same period in the prior fiscal year. Deductibles paid on insurance claims increased by \$8,000 when compared to the prior year and the addition of new income-producing real estate properties accounted for an increase of \$205,000.

**Property Management Expenses.** Property management expenses increased by 16.8% to \$4.7 million in the third quarter of fiscal year 2015, compared to \$4.1 million in the same period of the prior fiscal year. An increase of \$305,000 was attributable to internal property management expenses at same-store properties while the addition of new income-producing real estate properties accounted for an increase of \$377,000.

Property management expenses increased by 10.9% to \$13.7 million in the nine months ended January 31, 2015 compared to \$12.4 million in the same period of the prior fiscal year. An increase of \$555,000 was attributable to internal property management expenses at same-store properties while the addition of new income-producing real estate properties accounted for an increase of \$793,000.

**Other Property Expenses.** Other property expense, consisting primarily of bad debt provision expense, increased to approximately \$227,000 in the third quarter of fiscal year 2015, compared to approximately \$124,000 in the same period of the prior fiscal year. Other property expense increased to approximately \$783,000 in the nine months ended January 31, 2015, compared to approximately \$304,000 in the same period of the prior fiscal year. The increase for both the three and nine months is primarily due to an increase in the provision for bad debt.

**TRS Senior Housing Expenses.** The Company has one TRS, acquired during the second quarter of fiscal year 2014, which is the tenant in the Company's Legends at Heritage Place senior housing facility. Property management expenses for the Heritage Place property are paid by the TRS, as the tenant in the property, and revenue from the Heritage Place facility is shown as TRS senior housing revenue on the Condensed Consolidated Statements of Operations. TRS senior housing expense increased to approximately \$825,000 in the third quarter of fiscal year 2015, compared to \$671,000 in the same period of the prior year. The TRS expense increased by 234.3% to \$2.2 million in the nine months ended January 31, 2015, compared to \$671,000 in the same period of the prior fiscal year, primarily due to the TRS only being in operation during the last two quarters of fiscal year 2014.



General and Administrative. General and administrative expenses increased by 10.5% to \$3.2 million in the third quarter of fiscal year 2015, compared to \$2.9 million in the same period of the prior fiscal year. This change was primarily due to an approximately \$107,000 increase in healthcare costs due to higher claims under our self-funded plan compared to the same period of the prior fiscal year and various other increases in miscellaneous expenses.

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General and administrative expenses increased by 14.8% to \$11.0 million in the nine months ended January 31, 2015, compared to \$9.6 million in the same period of the prior fiscal year. This change was primarily due to an increase of \$1.1 million in share-based compensation expense.

**Amortization Related to Non-Real Estate Investments.** Amortization related to non-real estate investments increased to approximately \$916,000 in the third quarter of fiscal year 2015, compared to approximately \$756,000 in the same period of the prior fiscal year. Amortization related to non-real estate investments was \$2.6 million and \$2.5 million in the nine months ended January 31, 2015 and 2014, respectively.

**Impairment of Real Estate Investments.** During the three months ended January 31, 2015, the Company incurred a loss of approximately \$540,000 due to the impairment of two parcels of unimproved land. During the nine months ended January 31, 2015, the Company incurred a loss of \$6.1 million due to the impairment of three office properties, one retail property and two parcels of unimproved land. Impairment of \$4.8 million was recognized in the three and nine months ended January 31, 2014. See Note 2 of the Notes to the Condensed Consolidated Financial Statements in this report for additional information.

**Gain on Involuntary Conversion.** During the three and nine months ended January 31, 2014, the Company recognized a gain on involuntary conversion of \$1.5 million and \$2.5 million, respectively. No gain on involuntary conversion was recognized in the three or nine months ended January 31, 2015. See Note 2 of the Notes to the Condensed Consolidated Financial Statements in this report for additional information.

**Interest Expense.** Components of interest expense in the three and nine months ended January 31, 2015 and 2014 were as follows.

|                        | (in thousands, except percentages) |          |              |         |                   |          |              |        |
|------------------------|------------------------------------|----------|--------------|---------|-------------------|----------|--------------|--------|
|                        | Three Months Ended                 |          |              |         | Nine Months Ended |          |              |        |
|                        | January 31                         |          | 2015 vs 2014 |         | January 31        |          | 2015 vs 2014 |        |
| 2015                   | 2014                               | \$       | % Change     | 2015    | 2014              | \$       | % Change     |        |
| Mortgage debt          | \$13,396                           | \$14,156 | \$(760)      | (5.4)%  | \$40,388          | \$42,533 | \$(2,145)    | (5.0)% |
| Line of credit         | 494                                | 164      | 330          | 201.2%  | 1,363             | 427      | 936          | 219.2% |
| Other                  | 705                                | 810      | (105)        | (13.0)% | 2,107             | 1,565    | 542          | 34.6%  |
| Total interest expense | \$14,595                           | \$15,130 | \$(535)      | (3.5)%  | \$43,858          | \$44,525 | \$(667)      | (1.5)% |

Mortgage interest decreased by 5.4% to \$13.4 million in the third quarter of fiscal year 2015, compared to \$14.2 million in the same period of the prior fiscal year. Mortgages on non-same-store properties added approximately \$98,000 and \$264,000 to our mortgage interest expense in the three and nine months ended January 31, 2015, respectively, while mortgage interest on same-store properties decreased approximately \$858,000 and \$2.4 million compared to the three and nine months ended January 31, 2014, primarily due to loan payoffs and refinancings. Our overall weighted average mortgage interest rate was 5.17% and 5.48% as of January 31, 2015 and 2014, respectively. Interest expense on our line of credit increased to approximately \$494,000 and \$1,363,000 in the three and nine months ended January 31, 2015, respectively, compared to approximately \$164,000 and \$427,000 in the same periods of the prior fiscal year, primarily due to a higher average outstanding balance during fiscal year 2015.

Other interest consists of interest on the Company's construction loans, a financing liability, security deposits and special assessments, as well as amortization of loan costs, offset by capitalized construction interest. Other interest decreased to approximately \$705,000 in the third quarter of fiscal year 2015, compared to approximately \$810,000 in the same period of the prior fiscal year. Other interest increased to \$2.1 million in the nine months ended January 31, 2015, compared to \$1.6 million in the same period of the prior fiscal year, primarily due to interest on a financing liability that was not in place for the entirety of the nine months ended January 31, 2014.

**Interest Income and Other Income.** The Company recorded interest income in the third quarter of fiscal years 2015 and 2014 of approximately \$561,000 and \$573,000, respectively. Interest income for the nine months ended January 31, 2015 was \$1.7 million, compared to \$1.3 million in the same period of the prior fiscal year. The increase was primarily due to interest earned on a contract for deed that was not in place for the entirety of the nine months ended January 31, 2014. See the Proceeds from Financing Liability section of Note 2 of the Notes to the Condensed Consolidated Financial Statements in this report for additional information.

Other income consists of real estate tax appeal refunds and other miscellaneous income. The Company earned other income in the three months ended January 31, 2015 and 2014 of approximately \$109,000 and \$34,000, respectively,

and in the nine months ended January 31, 2015 and 2014 of approximately \$376,000 and \$123,000, respectively. Gain (Loss) on Sale of Real Estate and Other Investments. The Company recorded in continuing operations a net gain of approximately \$951,000 in the three months ended January 31, 2015 and a net loss of approximately \$(811,000) in the nine months ended January 31, 2015 on the sale of real estate. Properties sold in the nine months ended January 31, 2015 and 2014 are detailed below in the section captioned "Property Acquisitions and Dispositions."

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Income from Discontinued Operations. Prior to February 1, 2014, the Company reported, in discontinued operations, the results of operations and the related gains or losses of properties that had either been disposed of or classified as held for sale and otherwise met the classification of a discontinued operation. Effective February 1, 2014 the Company adopted ASU No. 2014-08. Under this standard, a disposal (or classification as held for sale) of a component of an entity or a group of components of an entity is required to be reported in discontinued operations if the disposal represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results. As a result of the adoption of ASU No. 2014-08, results of operations and gains or losses on sale for properties that are disposed or classified as held for sale in the ordinary course of business on or subsequent to February 1, 2014 would generally be included in continuing operations on the Company's consolidated statements of operations, to the extent such disposals did not meet the criteria for classification as a discontinued operation described above.

The Company recorded no income from discontinued operations in the three and nine months ended January 31, 2015, compared to approximately \$465,000 and \$6.5 million in the three and nine months ended January 31, 2014, respectively. During the first three quarters of fiscal year 2014, the Company disposed of two multi-family residential properties, three office properties, twelve industrial properties and three retail properties that were classified as discontinued operations. The Company realized a gain on sale of discontinued operations of approximately \$358,000 and \$7.0 million in the three and nine months ended January 31, 2014, respectively. See Note 7 of the Notes to the Condensed Consolidated Financial Statements in this report for further information on discontinued operations.

Net Income. Net income available to common shareholders for the three and nine months ended January 31, 2015 was \$9.2 million and \$14.8 million, respectively, compared to \$4.1 million and \$17.6 million for the three and nine months ended January 31, 2014, respectively. On a per common share basis, net income was \$.05 and \$.04 per common share for the three and nine months ended January 31, 2015, respectively, compared to \$.00 and \$.06 for the three and nine months ended January 31, 2014, respectively.

#### Occupancy

Occupancy as of January 31, 2015 compared to January 31, 2014 increased in our multi-family residential segment, decreased in our office, healthcare and retail segments and remained stable in our industrial segment on a same-store basis. The decreased occupancy in the retail segment on a same-store basis was primarily due to the non-renewal of three leases at three of our retail properties for a total of approximately 94,000 square feet. Occupancy represents the actual number of units or square footage leased divided by the total number of units or square footage at the end of the period.

#### Occupancy Levels on a Same-Store Property and All Property Basis:

| Segments                 | Same-Store Properties  |                        | All Properties         |                        |
|--------------------------|------------------------|------------------------|------------------------|------------------------|
|                          | As of January 31, 2015 | As of January 31, 2014 | As of January 31, 2015 | As of January 31, 2014 |
| Multi-Family Residential | 94.0%                  | 92.8%                  | 91.3%                  | 91.8%                  |
| Office                   | 84.1%                  | 84.5%                  | 81.9%                  | 80.4%                  |
| Healthcare               | 95.8%                  | 96.4%                  | 95.8%                  | 96.4%                  |
| Industrial               | 100.0%                 | 100.0%                 | 100.0%                 | 86.2%                  |
| Retail                   | 83.5%                  | 87.7%                  | 83.8%                  | 86.9%                  |

#### Net Operating Income

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

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The following tables show real estate revenues, real estate operating expenses, gain on involuntary conversion and NOI by reportable operating segment for the three and nine months ended January 31, 2015 and 2014. For a reconciliation of net operating income of reportable segments to net income as reported, see Note 5 of the Notes to the Condensed Consolidated Financial Statements in this report.

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The tables also show net operating income by reportable operating segment on a same-store property and non-same-store property basis. This comparison allows the Company to evaluate the performance of existing properties and their contribution to net income. Management believes that measuring performance on a same-store property basis is useful to investors because it enables evaluation of how the Company's properties are performing year over year. Management uses this measure to assess whether or not it has been successful in increasing net operating income, renewing the leases of existing tenants, controlling operating costs and appropriately handling capital improvements. The discussion below focuses on the main factors affecting real estate revenue and real estate expenses from same-store properties, since changes from one fiscal year to another in real estate revenue and expenses from non-same-store properties are due to the addition of those properties to the Company's real estate portfolio, and accordingly provide less useful information for evaluating the ongoing operational performance of the Company's real estate portfolio.

All Segments

The following table of selected operating data reconciles NOI to net income and provides the basis for our discussion of NOI by segment in the three and nine months ended January 31, 2015 and 2014.

|   | (in thousands, except percentages) |          |              |          |                   |           |              |          |
|---|------------------------------------|----------|--------------|----------|-------------------|-----------|--------------|----------|
|   | Three Months Ended                 |          |              |          | Nine Months Ended |           |              |          |
|   | January 31                         |          | 2015 vs 2014 |          | January 31        |           | 2015 vs 2014 |          |
| 2015  | 2014                               | \$       | %            | 2015     | 2014              | \$        | %            |          |
|   |                                    | Change   | Change       |          |                   | Change    | Change       |          |
| <b>All Segments</b>   |                                    |          |              |          |                   |           |              |          |
| <b>Real estate revenue</b>  |                                    |          |              |          |                   |           |              |          |
| Same-store  | \$64,436                           | \$63,563 | \$873        | 1.4%     | \$189,863         | \$187,942 | \$1,921      | 1.0%     |
| Non-same-store <sup>(1)</sup>   | 7,517                              | 4,066    | 3,451        | 84.9%    | 19,969            | 10,557    | 9,412        | 89.2%    |
| Total   | \$71,953                           | \$67,629 | \$4,324      | 6.4%     | \$209,832         | \$198,499 | \$11,333     | 5.7%     |
| <b>Real estate expenses</b>   |                                    |          |              |          |                   |           |              |          |
| Same-store  | \$25,743                           | \$23,897 | \$1,846      | 7.7%     | \$75,850          | \$73,419  | \$2,431      | 3.3%     |
| Non-same-store <sup>(1)</sup>   | 2,691                              | 2,030    | 661          | 32.6%    | 7,339             | 5,479     | 1,860        | 33.9%    |
| Total   | \$28,434                           | \$25,927 | \$2,507      | 9.7%     | \$83,189          | \$78,898  | \$4,291      | 5.4%     |
| <b>Gain on involuntary conversion</b>   |                                    |          |              |          |                   |           |              |          |
| Same-store  | \$0                                | \$0      | \$0          | n/a      | \$0               | \$0       | \$0          | n/a      |
| Non-same-store <sup>(1)</sup>   | 0                                  | 1,514    | (1,514)      | (100.0)% | 0                 | 2,480     | (2,480)      | (100.0)% |
| Total   | \$0                                | \$1,514  | \$(1,514)    | (100.0)% | \$0               | \$2,480   | \$(2,480)    | (100.0)% |
| <b>Net operating income</b>   |                                    |          |              |          |                   |           |              |          |
| Same-store  | \$38,693                           | \$39,666 | \$(973)      | (2.5)%   | \$114,013         | \$114,523 | \$(510)      | (0.4)%   |
| Non-same-store <sup>(1)</sup>   | 4,826                              | 3,550    | 1,276        | 35.9%    | 12,630            | 7,558     | 5,072        | 67.1%    |
| Total   | \$43,519                           | \$43,216 | \$303        | 0.7%     | \$126,643         | \$122,081 | \$4,562      | 3.7%     |
| TRS senior housing revenue  | 963                                | 0        |              |          | 2,599             | 0         |              |          |
| TRS senior housing expenses   | (825)                              | 0        |              |          | (2,243)           | 0         |              |          |
| Depreciation/amortization   | (17,750)                           | (17,489) |              |          | (52,474)          | (53,656)  |              |          |
| General and administrative  | (3,242)                            | (2,935)  |              |          | (10,986)          | (9,572)   |              |          |
| Impairment of real estate investments   | (540)                              | (4,798)  |              |          | (6,105)           | (4,798)   |              |          |
| Interest expense  | (14,595)                           | (15,130) |              |          | (43,858)          | (44,525)  |              |          |
| Interest and other income   | 670                                | 740      |              |          | 2,057             | 1,602     |              |          |
| Income before loss on sale of real estate and other investments and income from discontinued operations | 8,200                              | 3,604    |              |          | 15,633            | 11,132    |              |          |

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|  |         |         |          |          |
|--|---------|---------|----------|----------|
| Gain (loss) on sale of real estate and other investments | 951     | 0       | (811)    | 0        |
| Income from continuing operations                        | 9,151   | 3,604   | 14,822   | 11,132   |
| Income from discontinued operations <sup>(2)</sup>       | 0       | 465     | 0        | 6,450    |
| Net income   | \$9,151 | \$4,069 | \$14,822 | \$17,582 |

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(1) Non-same-store properties consist of the following properties (re-development and in-service development properties are listed in bold type):

|                            |  |
|----------------------------|--|
|                            | Arcata, Golden Valley, MN; Colonial Villa, Burnsville, MN; Commons at Southgate, Minot, ND; Cypress Court I and II, St. Cloud, MN; Dakota Commons, Williston, ND; Homestead Garden, Rapid City, SD; Landing at Southgate, Minot, ND; Northridge, Bismarck, ND; Pinecone Villas, Sartell, MN; Red 20, Minneapolis, MN; Renaissance Heights, Williston, ND; River Ridge, Bismarck, ND; Silver Springs, Rapid City, SD and Southpoint, Grand Forks, ND. |
| Multi-Family Residential - | Total number of units, 1,870.  |
| Healthcare -               | Spring Creek Fruitland, Fruitland, ID.<br>Total rentable square footage, 39,500.   |
| Industrial -               | Roseville 3075 Long Lake Road, Roseville, MN.<br>Total rentable square footage, 17,750.  |
| Retail -                   | Minot Wells Fargo Bank, Minot, ND.<br>Total rentable square footage, 4,998.  |
| Held for Sale Office -     | 2030 Cliff Road, Eagan, MN; Burnsville Bluffs II, Burnsville, MN; Northgate II, Maple Grove, MN; Plymouth I, Plymouth, MN; Plymouth II, Plymouth, MN; Plymouth III, Plymouth, MN; Plymouth IV-V, Plymouth, MN; Southeast Tech, Eagan, MN; Thresher Square, Minneapolis, MN and Whitewater Plaza, Minnetonka, MN.<br>Total rentable square footage, 526,469.  |
| Healthcare -               | Jamestown Medical Office Building, Jamestown, ND.<br>Total rentable square footage, 45,222.  |
| Retail -                   | Weston Walgreens, Weston, WI.<br>Total rentable square footage, 14,820.  |

Total NOI for held for sale properties for the three months ended January 31, 2015 and 2014, respectively, \$940 and \$743.  
Total NOI for held for sale properties for the nine months ended January 31, 2015 and 2014, respectively, \$2,695 and \$2,272.

|                                 |  |
|---------------------------------|--|
| Sold Multi-Family Residential - | Lancaster, St. Cloud, MN.  |
| Office -                        | Dewey Hill Business Center, Edina, MN; Northgate I, Maple Grove, MN and Wirth Corporate Center, Golden Valley, MN. |
| Industrial -                    | Eagan 2785 & 2795 Hwy 55, Eagan, MN.   |
| Retail -                        | Fargo Express Community, Fargo, ND; Kalispell Retail Center, Kalispell, MT and Weston Retail, Weston, WI.          |

Total NOI for sold properties for the three months ended January 31, 2015 and 2014, respectively, \$65 and \$270.  
Total NOI for sold properties for the nine months ended January 31, 2015 and 2014, respectively, \$751 and \$771.

(2) Discontinued operations include gain on disposals and income from operations for:  
2014 Dispositions – Anoka Strip Center, API Building, Bloomington Business Plaza, Bodycote Industrial Building, Brooklyn Park 7401 Boone Ave, Burnsville 2 Strip Center, Cedar Lake Business Center, Clive 2075 NW 94<sup>th</sup> Street, Dixon Avenue Industrial Park, Eagan Community, East Park, Fargo 1320 45<sup>th</sup> Street N, Lighthouse, Metal Improvement Company, Minnetonka 13600 County Road 62, Nicollet VII, Pillsbury Business Center, Roseville 2929 Long Lake Road, Sycamore Village and Winsted Industrial Building.



An analysis of NOI by segment follows.

Multi-Family Residential

Real estate revenue from same-store properties in our multi-family residential segment increased by \$862,000 in the three months ended January 31, 2015 compared to the same period in the prior fiscal year. The continued levels of high occupancy provided the ability to raise rents, and accordingly an \$898,000 increase was realized due to rental rate increases. Other fee items combined decreased by \$36,000.

Real estate expenses at same-store properties increased by \$1.3 million in the three months ended January 31, 2015 compared to the same period in the prior fiscal year. The primary factors were increased real estate taxes of \$633,000, increased insurance expenses of \$249,000 and increased property management expenses of \$195,000. The increase in real estate taxes was primarily attributable to increased property valuations in our North Dakota markets. A property tax relief credit was in effect in the State of North Dakota for both periods, but the higher property valuations more than offset the effect of the credit for the third quarter of fiscal year 2015. Insurance premium rates at same-store properties decreased, but total premium costs rose due to an increase in insured values compared to the same period in the prior fiscal year. The increase in property management expenses was primarily attributable to increased marketing costs while all other real estate expenses combined increased by \$177,000.

Real estate revenue from same-store properties in our multi-family residential segment increased by \$2.3 million in the nine months ended January 31, 2015 compared to the same period in the prior fiscal year. The continued levels of high occupancy provided the ability to raise rents, and accordingly a \$2.2 million increase was realized due to rental rate increases. Other fee items combined increased by \$131,000.

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Real estate expenses at same-store properties increased by \$2.0 million in the nine months ended January 31, 2015 compared to the same period in the prior fiscal year. The primary factors were increased real estate taxes of \$731,000, increased insurance expenses of \$555,000 and increased maintenance expenses of \$494,000. The increase in real estate taxes was primarily attributable to increased property valuations in our North Dakota markets. As mentioned above, a property tax relief credit was in effect in the State of North Dakota for both periods, but the higher property valuations more than offset the effect of the credit for the nine months ended January 31, 2015. As mentioned above, insurance premium rates at same-store properties decreased, but total premium costs rose due to an increase in insured values compared to the same period in the prior fiscal year. The increase in maintenance expenses was due to increased labor and benefit costs which resulted from the ability to hire additional personnel in energy impacted markets where we were previously understaffed, while all other real estate expenses combined increased by \$222,000.

(in thousands, except percentages)

| Three Months Ended |      |              |          | Nine Months Ended |      |              |          |
|--------------------|------|--------------|----------|-------------------|------|--------------|----------|
| January 31         |      | 2015 vs 2014 |          | January 31        |      | 2015 vs 2014 |          |
| 2015               | 2014 | \$           | % Change | 2015              | 2014 | \$           | % Change |
|                    |      | Change       |          |                   |      | Change       |          |

Multi-Family Residential

Real estate revenue

|                |          |          |         |        |          |          |          |        |
|----------------|----------|----------|---------|--------|----------|----------|----------|--------|
| Same-store     | \$24,773 | \$23,911 | \$862   | 3.6%   | \$74,206 | \$71,889 | \$2,317  | 3.2%   |
| Non-same-store | 5,483    | 1,937    | 3,546   | 183.1% | 13,370   | 3,770    | 9,600    | 254.6% |
| Total          | \$30,256 | \$25,848 | \$4,408 | 17.1%  | \$87,576 | \$75,659 | \$11,917 | 15.1%  |

Real estate expenses

|                |          |          |         |        |          |          |         |        |
|----------------|----------|----------|---------|--------|----------|----------|---------|--------|
| Same-store     | \$11,441 | \$10,187 | \$1,254 | 12.3%  | \$33,113 | \$31,111 | \$2,002 | 6.4%   |
| Non-same-store | 1,877    | 811      | 1,066   | 131.4% | 4,587    | 1,895    | 2,692   | 142.1% |
| Total          | \$13,318 | \$10,998 | \$2,320 | 21.1%  | \$37,700 | \$33,006 | \$4,694 | 14.2%  |

Gain on involuntary conversion

|                |     |         |           |          |     |         |           |          |
|----------------|-----|---------|-----------|----------|-----|---------|-----------|----------|
| Same-store     | \$0 | \$0     | \$0       | n/a      | \$0 | \$0     | \$0       | n/a      |
| Non-same-store | 0   | 1,514   | (1,514)   | (100.0)% | 0   | 2,480   | (2,480)   | (100.0)% |
| Total          | \$0 | \$1,514 | \$(1,514) | (100.0)% | \$0 | \$2,480 | \$(2,480) | (100.0)% |

Net operating income

|                |          |          |         |        |          |          |         |        |
|----------------|----------|----------|---------|--------|----------|----------|---------|--------|
| Same-store     | \$13,332 | \$13,724 | \$(392) | (2.9)% | \$41,093 | \$40,778 | \$315   | 0.8%   |
| Non-same-store | 3,606    | 2,640    | 966     | 36.6%  | 8,783    | 4,355    | 4,428   | 101.7% |
| Total          | \$16,938 | \$16,364 | \$574   | 3.5%   | \$49,876 | \$45,133 | \$4,743 | 10.5%  |

| Occupancy      | 2015  | 2014  |
|----------------|-------|-------|
| Same-store     | 94.0% | 92.8% |
| Non-same-store | 77.1% | 79.9% |
| Total          | 91.3% | 91.8% |

| Number of Units | 2015   | 2014   |
|-----------------|--------|--------|
| Same-store      | 9,895  | 9,896  |
| Non-same-store  | 1,870  | 829    |
| Total           | 11,765 | 10,725 |

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Office

Real estate revenue from same-store properties in our office segment decreased by \$54,000 in the third quarter of fiscal year 2015 compared to the third quarter of fiscal year 2014. The decrease in revenue was due to a decrease in the straight-line rent receivable of \$541,000. This decrease was offset by an increase in rental revenues of \$487,000 which was primarily due to increased occupancy and decreased tenant rent concessions.

Real estate expenses at same-store properties increased by \$326,000 in the third quarter of fiscal year 2015 compared to the third quarter of fiscal 2014. The primary factor was increased real estate taxes of \$275,000 while all other real estate expenses combined increased by \$51,000.

Real estate revenue from same-store properties in our office segment decreased by \$894,000 in the nine months ended January 31, 2015 compared to the same period in the prior fiscal year. The decrease in revenue was due to a decrease in the straight-line rent receivable of \$1.3 million and a decrease in tenant reimbursements of \$702,000 which was primarily due to a decrease in recoverable operating expenses. These decreases were offset by an increase in rental revenues of \$1.1 million which was primarily due to decreased tenant rent concessions.

Real estate expenses at same-store properties increased by \$136,000 in the nine months ended January 31, 2015 compared to the same period of the prior fiscal year. The primary factor was increased other property expenses of \$336,000 which resulted due to an increase in the bad debt provision. All other real estate expenses combined decreased by \$200,000.

(in thousands, except percentages)

|  |  | Three Months Ended |          |              |          | Nine Months Ended |          |
|--|--|--------------------|----------|--------------|----------|-------------------|----------|
|  |  | January 31         |          | January 31   |          | January 31        |          |
|  |  | 2015 vs 2014       |          | 2015 vs 2014 |          | 2015 vs 2014      |          |
|  |  | \$                 | % Change | \$           | % Change | \$                | % Change |
|  |  | 2015               | 2014     | 2015         | 2014     | 2015              | 2014     |

Office

Real estate revenue

|                |           |           |          |         |           |           |            |        |
|----------------|-----------|-----------|----------|---------|-----------|-----------|------------|--------|
| Same-store     | \$ 17,798 | \$ 17,852 | \$ (54)  | (0.3)%  | \$ 52,645 | \$ 53,539 | \$ (894)   | (1.7)% |
| Non-same-store | 1,288     | 1,542     | (254)    | (16.5)% | 4,272     | 4,536     | (264)      | (5.8)% |
| Total          | \$ 19,086 | \$ 19,394 | \$ (308) | (1.6)%  | \$ 56,917 | \$ 58,075 | \$ (1,158) | (2.0)% |

Real estate expenses

|                |          |          |        |         |           |           |          |         |
|----------------|----------|----------|--------|---------|-----------|-----------|----------|---------|
| Same-store     | \$ 8,420 | \$ 8,094 | \$ 326 | 4.0%    | \$ 25,701 | \$ 25,565 | \$ 136   | 0.5%    |
| Non-same-store | 630      | 943      | (313)  | (33.2)% | 2,172     | 2,750     | (578)    | (21.0)% |
| Total          | \$ 9,050 | \$ 9,037 | \$ 13  | 0.1%    | \$ 27,873 | \$ 28,315 | \$ (442) | (1.6)%  |

Net operating income

|                |           |           |          |        |           |           |            |        |
|----------------|-----------|-----------|----------|--------|-----------|-----------|------------|--------|
| Same-store     | \$ 9,378  | \$ 9,758  | \$ (380) | (3.9)% | \$ 26,944 | \$ 27,974 | \$ (1,030) | (3.7)% |
| Non-same-store | 658       | 599       | 59       | 9.9%   | 2,100     | 1,786     | 314        | 17.6%  |
| Total          | \$ 10,036 | \$ 10,357 | \$ (321) | (3.1)% | \$ 29,044 | \$ 29,760 | \$ (716)   | (2.4)% |

| Occupancy      | 2015  | 2014  |
|----------------|-------|-------|
| Same-store     | 84.1% | 84.5% |
| Non-same-store | 64.2% | 58.2% |
| Total          | 81.9% | 80.4% |

| Rentable Square Footage | 2015      | 2014      |
|-------------------------|-----------|-----------|
| Same-store              | 4,078,338 | 4,077,797 |
| Non-same-store          | 526,469   | 753,666   |
| Total                   | 4,604,807 | 4,831,463 |

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Healthcare

Real estate revenue from same-store properties in our healthcare segment increased by \$72,000 in the three months ended January 31, 2015 compared to the same period in the prior fiscal year. Real estate rental revenue increased by \$115,000 due to an increase in percentage rent revenue attributable to our Edgewood Vista senior living facilities while tenant reimbursements decreased by \$43,000 due to a slight decrease in occupancy.

Real estate expenses from same-store properties increased by \$140,000 in the three months ended January 31, 2015 compared to the same period in the prior fiscal year. The increase in expenses was attributable to an increase in utilities expenses of \$79,000 which resulted from increased heating costs and an increase in real estate taxes of \$69,000. All other real estate expenses combined decreased by \$8,000.

Real estate revenue from same-store properties in our healthcare segment increased by \$373,000 in the nine months ended January 31, 2015 compared to the same period in the prior fiscal year. Percentage rent revenue at our Edgewood Vista senior living facilities increased by \$238,000 while all other real estate revenue items combined increased by \$135,000.

Real estate expenses from same-store properties increased by \$249,000 in the nine months ended January 31, 2015 compared to the same period in the prior fiscal year. The increase in expenses was primarily attributable to an increase in property management expenses of \$111,000 and an increase in real estate taxes of \$89,000, while all other real estate expenses combined increased by \$49,000.

(in thousands, except percentages)

| Three Months Ended |      | Nine Months Ended |          |            |      |              |          |
|--------------------|------|-------------------|----------|------------|------|--------------|----------|
| January 31         |      | 2015 vs 2014      |          | January 31 |      | 2015 vs 2014 |          |
| 2015               | 2014 | \$                | % Change | 2015       | 2014 | \$           | % Change |

Healthcare

Real estate revenue

|                |           |           |        |        |           |           |        |       |
|----------------|-----------|-----------|--------|--------|-----------|-----------|--------|-------|
| Same-store     | \$ 17,041 | \$ 16,969 | \$ 72  | 0.4%   | \$ 48,843 | \$ 48,470 | \$ 373 | 0.8%  |
| Non-same-store | 546       | 273       | 273    | 100.0% | 1,479     | 870       | 609    | 70.0% |
| Total          | \$ 17,587 | \$ 17,242 | \$ 345 | 2.0%   | \$ 50,322 | \$ 49,340 | \$ 982 | 2.0%  |

Real estate expenses

|                |          |          |        |       |           |           |        |       |
|----------------|----------|----------|--------|-------|-----------|-----------|--------|-------|
| Same-store     | \$ 4,204 | \$ 4,064 | \$ 140 | 3.4%  | \$ 12,562 | \$ 12,313 | \$ 249 | 2.0%  |
| Non-same-store | 111      | 56       | 55     | 98.2% | 343       | 221       | 122    | 55.2% |
| Total          | \$ 4,315 | \$ 4,120 | \$ 195 | 4.7%  | \$ 12,905 | \$ 12,534 | \$ 371 | 3.0%  |

Net operating income

|                |           |           |         |        |           |           |        |       |
|----------------|-----------|-----------|---------|--------|-----------|-----------|--------|-------|
| Same-store     | \$ 12,837 | \$ 12,905 | \$ (68) | (0.5)% | \$ 36,281 | \$ 36,157 | \$ 124 | 0.3%  |
| Non-same-store | 435       | 217       | 218     | 100.5% | 1,136     | 649       | 487    | 75.0% |
| Total          | \$ 13,272 | \$ 13,122 | \$ 150  | 1.1%   | \$ 37,417 | \$ 36,806 | \$ 611 | 1.7%  |

| Occupancy      | 2015  | 2014  |
|----------------|-------|-------|
| Same-store     | 95.8% | 96.4% |
| Non-same-store | 95.6% | 91.7% |
| Total          | 95.8% | 96.4% |

| Rentable Square Footage | 2015      | 2014      |
|-------------------------|-----------|-----------|
| Same-store              | 2,910,876 | 2,910,994 |
| Non-same-store          | 84,722    | 143,396   |
| Total                   | 2,995,598 | 3,054,390 |

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Industrial

Real estate revenue from same-store properties in our industrial segment increased by \$110,000 in the third quarter of fiscal year 2015 compared to the third quarter of fiscal year 2014. Tenant reimbursements increased by \$113,000 due to an increase in recoverable operating expenses while rental revenue decreased by \$3,000.

Real estate expenses from same-store properties increased by \$122,000 in the third quarter of fiscal 2015 compared to the third quarter of fiscal 2014. The increase was due to an increase in maintenance expenses of \$126,000 which resulted from more general maintenance items being completed during the quarter when compared to the prior year.

All other real estate expenses combined decreased by \$4,000.

Real estate revenue from same-store properties in our industrial segment increased by \$104,000 in the nine months ended January 31, 2015 compared to the same period of the prior fiscal year. Tenant reimbursements increased by \$77,000 due to an increase in recoverable operating expenses while rental revenue increased by \$27,000.

Real estate expenses from same-store properties increased by \$81,000 in the nine months ended January 31, 2015 compared to the same period of the prior fiscal year. The increase was due to an increase in maintenance expenses of \$137,000 which resulted from more general maintenance items being completed during the period when compared to the prior year. All other real estate expenses combined decreased by \$56,000.

(in thousands, except percentages)

|  |  | Three Months Ended |          | Nine Months Ended |          |      |          |
|--|--|--------------------|----------|-------------------|----------|------|----------|
|  |  | January 31         |          | January 31        |          |      |          |
|  |  | 2015 vs 2014       |          | 2015 vs 2014      |          |      |          |
|  |  | \$                 | % Change | \$                | % Change | \$   | % Change |
|  |  | 2015               | 2014     | 2015              | 2014     | 2015 | 2014     |

Industrial

Real estate revenue

|                |         |         |       |         |         |         |         |         |
|----------------|---------|---------|-------|---------|---------|---------|---------|---------|
| Same-store     | \$1,705 | \$1,595 | \$110 | 6.9%    | \$4,758 | \$4,654 | \$104   | 2.2%    |
| Non-same-store | 36      | 69      | (33)  | (47.8)% | 146     | 619     | (473)   | (76.4)% |
| Total          | \$1,741 | \$1,664 | \$77  | 4.6%    | \$4,904 | \$5,273 | \$(369) | (7.0)%  |

Real estate expenses

|                |       |       |       |         |         |         |         |         |
|----------------|-------|-------|-------|---------|---------|---------|---------|---------|
| Same-store     | \$458 | \$336 | \$122 | 36.3%   | \$1,105 | \$1,024 | \$81    | 7.9%    |
| Non-same-store | 43    | 157   | (114) | (72.6)% | 118     | 423     | (305)   | (72.1)% |
| Total          | \$501 | \$493 | \$8   | 1.6%    | \$1,223 | \$1,447 | \$(224) | (15.5)% |

Net operating income

|                |         |         |        |         |         |         |         |         |
|----------------|---------|---------|--------|---------|---------|---------|---------|---------|
| Same-store     | \$1,247 | \$1,259 | \$(12) | (1.0)%  | \$3,653 | \$3,630 | \$23    | 0.6%    |
| Non-same-store | (7)     | (88)    | 81     | (92.0)% | 28      | 196     | (168)   | (85.7)% |
| Total          | \$1,240 | \$1,171 | \$69   | 5.9%    | \$3,681 | \$3,826 | \$(145) | (3.8)%  |

| Occupancy      | 2015   | 2014   |
|----------------|--------|--------|
| Same-store     | 100.0% | 100.0% |
| Non-same-store | 100.0% | 22.1%  |
| Total          | 100.0% | 86.2%  |

| Rentable Square Footage | 2015      | 2014      |
|-------------------------|-----------|-----------|
| Same-store              | 1,002,361 | 1,002,361 |
| Non-same-store          | 17,750    | 216,350   |
| Total                   | 1,020,111 | 1,218,711 |

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Retail

Real estate revenue from same-store properties in our retail segment decreased by \$117,000 in the three months ended January 31, 2015 compared to the same period in the prior fiscal year. The decrease in revenue was due to decreased rental revenue of \$134,000 which was the result of decreased occupancy. Other real estate revenue items increased by \$17,000.

Real estate expenses from same-store properties increased by \$4,000 in the three months ended January 31, 2015 compared to the same period in the prior fiscal year. The increase was due to increased real estate taxes of \$71,000 and increased other property expenses of \$55,000 which resulted from an increase in the bad debt provision. These increases were offset by a decrease in maintenance expenses of \$94,000 due to decreased snow removal and a decrease in all other real estate expenses combined of \$28,000.

Real estate revenue from same-store properties in our retail segment increased by \$21,000 in the nine months ended January 31, 2015 compared to the same period in the prior fiscal year. The increase in revenue was due to increased tenant reimbursements of \$26,000 and a decrease in rental revenue of \$5,000 compared to the prior year.

Real estate expenses from same-store properties decreased by \$37,000 in the nine months ended January 31, 2015 compared to the same period in the prior fiscal year. The decrease was due to decreased maintenance expenses of \$49,000 which resulted from a decrease in snow removal costs. All other real estate expenses combined increased by \$12,000.

(in thousands, except percentages)

|  |  | Three Months Ended |      | Nine Months Ended |      |              |          |
|--|--|--------------------|------|-------------------|------|--------------|----------|
|  |  | January 31         |      | January 31        |      | 2015 vs 2014 |          |
|  |  | 2015               | 2014 | 2015              | 2014 | \$           | % Change |
|  |  |                    |      |                   |      | Change       |          |

Retail

Real estate revenue

|                |         |         |         |         |          |          |        |        |
|----------------|---------|---------|---------|---------|----------|----------|--------|--------|
| Same-store     | \$3,119 | \$3,236 | \$(117) | (3.6)%  | \$9,411  | \$9,390  | \$21   | 0.2%   |
| Non-same-store | 164     | 245     | (81)    | (33.1)% | 702      | 762      | (60)   | (7.9)% |
| Total          | \$3,283 | \$3,481 | \$(198) | (5.7)%  | \$10,113 | \$10,152 | \$(39) | (0.4)% |

Real estate expenses

|                |         |         |        |         |         |         |         |         |
|----------------|---------|---------|--------|---------|---------|---------|---------|---------|
| Same-store     | \$1,220 | \$1,216 | \$4    | 0.3%    | \$3,369 | \$3,406 | \$(37)  | (1.1)%  |
| Non-same-store | 30      | 63      | (33)   | (52.4)% | 119     | 190     | (71)    | (37.4)% |
| Total          | \$1,250 | \$1,279 | \$(29) | (2.3)%  | \$3,488 | \$3,596 | \$(108) | (3.0)%  |

Net operating income

|                |         |         |         |         |         |         |      |      |
|----------------|---------|---------|---------|---------|---------|---------|------|------|
| Same-store     | \$1,899 | \$2,020 | \$(121) | (6.0)%  | \$6,042 | \$5,984 | \$58 | 1.0% |
| Non-same-store | 134     | 182     | (48)    | (26.4)% | 583     | 572     | 11   | 1.9% |
| Total          | \$2,033 | \$2,202 | \$(169) | (7.7)%  | \$6,625 | \$6,556 | \$69 | 1.1% |

| Occupancy      | 2015   | 2014  |
|----------------|--------|-------|
| Same-store     | 83.5%  | 87.7% |
| Non-same-store | 100.0% | 79.8% |
| Total          | 83.8%  | 86.9% |

| Rentable Square Footage | 2015      | 2014      |
|-------------------------|-----------|-----------|
| Same-store              | 1,184,736 | 1,181,632 |
| Non-same-store          | 19,818    | 126,690   |
| Total                   | 1,204,554 | 1,308,322 |

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## Analysis of Commercial Segments' Credit Risk and Leases

## Credit Risk

The following table lists our top ten commercial tenants on January 31, 2015, for all commercial properties owned by us, measured by percentage of total commercial segments' minimum rents as of January 1, 2015. Our results of operations are dependent on, among other factors, the economic health of our tenants. We attempt to mitigate tenant credit risk by working to secure creditworthy tenants that meet our underwriting criteria and monitoring our portfolio to identify potential problem tenants. We believe that our credit risk is also mitigated by the fact that no individual tenant accounts for more than 10% of our total real estate rentals, although affiliated entities of Edgewood Vista together accounted for approximately 14.8% of our total commercial segments' minimum rents as of January 1, 2015, and they accounted for approximately 7.3% of our total real estate rentals as of January 1, 2015.

As of January 31, 2015, 57 of our 160 commercial properties, including all 20 of our Edgewood Vista properties, all seven of our Idaho Spring Creek senior housing properties, and all five of our Wyoming senior housing properties, were leased under triple net leases under which the tenant pays a monthly lump sum base rent as well as all costs associated with the property, including property taxes, insurance, replacement, repair or restoration, in addition to maintenance. The failure by any of our triple net tenants to effectively conduct their operations or to maintain and improve our properties in accordance with the terms of their respective triple net leases could adversely affect their business reputations and ability to attract and retain residents and customers to our properties, which could have an indirect adverse effect on us.

We regularly monitor the relative credit risk of our significant tenants, including our triple net tenants. The metrics the Company uses to evaluate a significant tenant's liquidity and creditworthiness depend on facts and circumstances specific to that tenant and to the industry in which it operates, and include the tenant's credit history and economic conditions related to the tenant, its operations and the markets in which it operates. These factors may change over time. Prior to signing a lease with a tenant, the Company generally assesses the prospective tenant's credit quality through review of its financial statements and tax returns, and the result of that review is a factor in establishing the rent to be charged (e.g., higher risk tenants will be charged higher rent). Over the course of a lease, the Company's property management and asset management personnel have regular contact with tenants and tenant employees, and, where the terms of the lease permit, receive tenant financial information for periodic review, or review publicly-available financial statements, in the case of public company tenants or non-profit entities, such as hospital systems, whose financial statements are required to be filed with state agencies. Through these means the Company monitors tenant credit quality.

| Lessee  | % of Total Commercial Segments' Minimum Rents as of January 1, 2015 |
|---|---|
| Affiliates of Edgewood Vista                        | 14.8%   |
| Fairview Health Services                            | 3.8%  |
| St. Luke's Hospital of Duluth, Inc.                 | 3.5%  |
| Applied Underwriters                                | 2.4%  |
| HealthEast Care System                              | 1.8%  |
| Microsoft (NASDAQ: MSFT)                            | 1.4%  |
| Affiliates of Siemens USA (NYSE: SI)                | 1.4%  |
| Arcadis Corporate Services, Inc.                    | 1.4%  |
| Nebraska Orthopaedic Hospital <sup>(1)</sup>        | 1.4%  |
| State of Idaho Department of Health and Welfare     | 1.2%  |
| All Others  | 66.9%   |
| Total Monthly Commercial Rent as of January 1, 2015 | 100.0%  |

The tenant in the Company's Nebraska Orthopaedic Hospital property has exercised its option to purchase the property. The Company and its tenant are currently engaged in an arbitration proceeding pursuant to the lease agreement to determine the purchase price. The Company currently can give no assurance that the sale of the property pursuant to the purchase option will be completed.

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Commercial Leasing Activity

During fiscal year 2015, we have executed new and renewal commercial leases for our same-store rental properties on 186,514 square feet for the three months ended January 31, 2015 and 840,419 square feet for the nine months ended January 31, 2015. As a result of our leasing efforts, occupancy in our same-store commercial portfolio increased to 89.5% as of January 31, 2015, up from 86.4% as of January 31, 2014.

The total leasing activity for our same-store commercial rental properties, expressed in square feet of leases signed during the period, and the resulting occupancy levels, are as follows:

Three Months Ended January 31, 2015 and 2014

| Segments   | Square Feet of New Leases <sup>(1)</sup> |         | Square Feet of Leases Renewed <sup>(1)</sup> |         | Total Square Feet of Leases Executed <sup>(1)</sup> |         | Occupancy |       |
|------------|--|---------|--|---------|---|---------|-----------|-------|
|            | 2015                                     | 2014    | 2015   | 2014    | 2015  | 2014    | 2015      | 2014  |
| Office     | 37,076                                   | 64,288  | 63,091                                       | 80,424  | 100,167   | 144,712 | 84.1%     | 80.4% |
| Healthcare | 6,400                                    | 175     | 7,703  | 17,734  | 14,103  | 17,909  | 95.8%     | 96.4% |
| Industrial | 0  | 64,000  | 29,995                                       | 0       | 29,995  | 64,000  | 100.0%    | 85.6% |
| Retail     | 3,284                                    | 27,107  | 38,965                                       | 28,564  | 42,249  | 55,671  | 83.5%     | 86.9% |
| Total      | 46,760                                   | 155,570 | 139,754                                      | 126,722 | 186,514   | 282,292 | 89.5%     | 86.4% |

The leasing activity presented is based on leases signed or executed for our same-store rental properties during the period and is not intended to coincide with the commencement of rental revenue in accordance with GAAP. Prior periods reflect amounts previously reported and exclude retroactive adjustments for properties reclassified to discontinued operations or non-same-store in the current period.

Nine Months Ended January 31, 2015 and 2014

| Segments   | Square Feet of New Leases <sup>(1)</sup> |         | Square Feet of Leases Renewed <sup>(1)</sup> |         | Total Square Feet of Leases Executed <sup>(1)</sup> |           | Occupancy |       |
|------------|--|---------|--|---------|---|-----------|-----------|-------|
|            | 2015                                     | 2014    | 2015   | 2014    | 2015  | 2014      | 2015      | 2014  |
| Office     | 119,624                                  | 278,143 | 330,240                                      | 222,798 | 449,864   | 500,941   | 84.1%     | 80.4% |
| Healthcare | 17,979                                   | 31,268  | 108,391                                      | 34,996  | 126,370   | 66,264    | 95.8%     | 96.4% |
| Industrial | 0  | 234,403 | 29,995                                       | 251,831 | 29,995  | 486,234   | 100.0%    | 85.6% |
| Retail     | 51,252                                   | 124,966 | 182,938                                      | 78,257  | 234,190   | 203,223   | 83.5%     | 86.9% |
| Total      | 188,855                                  | 668,780 | 651,564                                      | 587,882 | 840,419   | 1,256,662 | 89.5%     | 86.4% |

The leasing activity presented is based on leases signed or executed for our same-store rental properties during the period and is not intended to coincide with the commencement of rental revenue in accordance with GAAP. Prior periods reflect amounts previously reported and exclude retroactive adjustments for properties reclassified to discontinued operations or non-same-store in the current period.

New Leases

The following table sets forth the average effective rents and the estimated costs of tenant improvements and leasing commissions, on a per square foot basis, that we are obligated to fulfill under the new leases signed for our same-store commercial rental properties:

Three Months Ended January 31, 2015 and 2014

| Segments   | Square Feet of New Leases <sup>(1)</sup> |        | Average Term in Years |      | Average Effective Rent <sup>(2)</sup> |         | Estimated Tenant Improvement Cost per Square Foot <sup>(1)</sup> |        | Leasing Commissions per Square Foot <sup>(1)</sup> |        |
|------------|--|--------|-----------------------|------|---------------------------------------|---------|--|--------|--|--------|
|            | 2015                                     | 2014   | 2015                  | 2014 | 2015                                  | 2014    | 2015   | 2014   | 2015   | 2014   |
| Office     | 37,076                                   | 64,288 | 4.4                   | 3.6  | \$14.29                               | \$13.85 | \$15.57  | \$6.76 | \$5.87   | \$3.20 |
| Healthcare | 6,400                                    | 175    | 7.5                   | 0.8  | 18.51                                 | 13.71   | 59.06  | 0      | 6.50   | 0      |
| Industrial | 0  | 64,000 | 0                     | 2.8  | 0                                     | 3.03    | 0  | 0      | 0  | 0.03   |

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|        |        |         |     |     |         |        |         |        |         |         |
|--------|--------|---------|-----|-----|---------|--------|---------|--------|---------|---------|
| Retail | 3,284  | 27,107  | 2.0 | 5.4 | 8.54    | 10.94  | 2.23    | 2.89   | 1.78    | 5.61    |
| Total  | 46,760 | 155,570 | 4.3 | 3.9 | \$14.47 | \$8.89 | \$20.58 | \$3.30 | \$ 5.67 | \$ 2.31 |

The leasing activity presented is based on leases signed or executed for our same-store rental properties during the period and is not intended to coincide with the commencement of rental revenue in accordance with GAAP. Prior (1) periods reflect amounts previously reported and exclude retroactive adjustments for properties reclassified to discontinued operations or non-same-store in the current period. Tenant improvements and leasing commissions presented are based on square feet leased during the period.

Effective rents represent average annual base rental payments, on a straight-line basis for the term of each lease, (2) excluding operating expense reimbursements. The underlying leases contain various expense structures including gross, modified gross, net and triple net.

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Nine Months Ended January 31, 2015 and 2014

|            | Square Feet of New Leases <sup>(1)</sup> |         | Average Term in Years |      | Average Effective Rent <sup>(2)</sup> |         | Estimated Tenant Improvement Cost per Square Foot <sup>(1)</sup> |         |        | Leasing Commissions per Square Foot <sup>(1)</sup> |  |
|------------|--|---------|-----------------------|------|---------------------------------------|---------|--|---------|--------|--|--|
|            | 2015                                     | 2014    | 2015                  | 2014 | 2015                                  | 2014    | 2015   | 2014    | 2015   | 2014   |  |
| Office     | 119,624                                  | 278,143 | 4.6                   | 4.3  | \$14.00                               | \$14.26 | \$15.65  | \$13.10 | \$5.33 | \$4.33   |  |
| Healthcare | 17,979                                   | 31,268  | 6.1                   | 4.8  | 20.00                                 | 21.38   | 37.16  | 49.66   | 6.84   | 6.75   |  |
| Industrial | 0  | 234,403 | 0                     | 3.1  | 0                                     | 3.55    | 0  | 0.13    | 0      | 0.50   |  |
| Retail     | 51,252                                   | 124,966 | 3.6                   | 5.4  | 8.36                                  | 5.70    | 16.26  | 1.84    | 3.46   | 4.47   |  |
| Total      | 188,855                                  | 668,780 | 4.5                   | 4.4  | \$13.04                               | \$9.24  | \$17.86  | \$8.16  | \$4.97 | \$3.13   |  |

The leasing activity presented is based on leases signed or executed for our same-store rental properties during the period and is not intended to coincide with the commencement of rental revenue in accordance with GAAP. Prior (1) periods reflect amounts previously reported and exclude retroactive adjustments for properties reclassified to discontinued operations or non-same-store in the current period. Tenant improvements and leasing commissions presented are based on square feet leased during the period.

Effective rents represent average annual base rental payments, on a straight-line basis for the term of each lease, (2) excluding operating expense reimbursements. The underlying leases contain various expense structures including gross, modified gross, net and triple net.

Our ability to maintain or increase occupancy rates is a principal driver of maintaining and increasing the average effective rents in our commercial segments. The increase in the average effective rental rate in the total commercial portfolio for the three months ended January 31, 2015 and the nine months ended January 31, 2015 when compared to the same periods in the prior fiscal year is due primarily to the fact that there were no new industrial leases executed in the nine months ended January 31, 2015, since industrial segment rents are typically lower on a per-square foot basis than rents charged for higher-finish office, retail and healthcare space. Absent the new industrial leases executed in the three months ended January 31, 2014 and the nine months ended January 31, 2014 the average effective rental rate of the total commercial portfolio for those periods would have been would have been \$12.99 and \$12.31 per-square foot respectively. The balance of the increase in the average effective rental rate in the total commercial portfolio for the three months ended January 31, 2015 and the nine months ended January 31, 2015 when compared to the same period in the prior fiscal year is due to increased leasing costs incurred for leases executed in the nine months ended January 31, 2015.

Lease Renewals

The following table summarizes our lease renewal activity within our same-store commercial segments (square feet data in thousands):

Three Months Ended January 31, 2015 and 2014

|            | Square Feet of Leases Renewed <sup>(1)</sup> |         | Percent of Expiring Leases Renewed <sup>(2)</sup> |        | Average Term in Years |      | Weighted Average Growth (Decline) in Effective Rents <sup>(3)</sup> |        | Estimated Tenant Improvement Cost per Square Foot <sup>(1)</sup> |        | Leasing Commissions per Square Foot <sup>(1)</sup> |        |
|------------|--|---------|---|--------|-----------------------|------|---|--------|--|--------|--|--------|
|            | 2015   | 2014    | 2015  | 2014   | 2015                  | 2014 | 2015  | 2014   | 2015   | 2014   | 2015   | 2014   |
| Office     | 63,091                                       | 80,424  | 65.4%   | 44.4%  | 2.1                   | 3.2  | 9.2%  | (1.0%) | \$0.31   | \$4.54 | \$1.63   | \$1.87 |
| Healthcare | 7,703  | 17,734  | 84.5%   | 100.0% | 16.8                  | 2.3  | 1.3%  | 9.6%   | 35.00  | 0      | 7.80   | 0.02   |
| Industrial | 29,995                                       | 0       | 0%  | 0%     | 3.0                   | 0    | (4.5%)  | 0%     | 0  | 0      | 1.21   | 0      |
| Retail     | 38,965                                       | 28,564  | 44.8%   | 100%   | 3.8                   | 4.0  | 17.4%   | 13.3%  | 1.93   | 4.63   | 0  | 0.06   |
| Total      | 139,754                                      | 126,722 | 63.4%   | 55.1%  | 3.5                   | 3.3  | 8.7%  | 3.6%   | \$2.61   | \$3.93 | \$1.43   | \$1.20 |

(1) The leasing activity presented is based on leases signed or executed for our same-store rental properties during the period and is not intended to coincide with the commencement of rental revenue in accordance with GAAP. Prior periods reflect amounts previously reported and exclude retroactive adjustments for properties reclassified to discontinued operations or non-same-store in the current period. Tenant improvements and leasing commissions

are based on square feet leased during the period.

(2) Renewal percentage of expiring leases is based on square footage of renewed leases and not the number of leases renewed. Beginning in the first quarter of fiscal year 2015, the category of renewed leases does not include leases that have become month-to-month leases; these month-to-month leases are considered lease amendments.

Previous-period data has been revised to reflect this change.

(3) Represents the percentage change in effective rent between the original leases and the renewal leases. Effective rents represent average annual base rental payments, on a straight-line basis for the term of each lease, excluding operating expense reimbursements. The underlying leases contain various expense structures including gross, modified gross, net and triple net.

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Nine Months Ended January 31, 2015 and 2014

|            | Square Feet of Leases Renewed <sup>(1)</sup> |         | Percent of Expiring Leases Renewed <sup>(2)</sup> |        | Average Term in Years |      | Weighted Average Growth (Decline) in Effective Rents <sup>(3)</sup> |        | Estimated Tenant Improvement Cost per Square Foot <sup>(1)</sup> |        | Leasing Commissions per Square Foot <sup>(1)</sup> |        |
|------------|--|---------|---|--------|-----------------------|------|---|--------|--|--------|--|--------|
|            | 2015   | 2014    | 2015  | 2014   | 2015                  | 2014 | 2015  | 2014   | 2015   | 2014   | 2015   | 2014   |
| Office     | 330,240                                      | 222,798 | 64.7%   | 52.9%  | 2.6                   | 3.6  | 10.8%   | (2.4%) | \$2.38   | \$4.69 | \$1.57   | \$3.31 |
| Healthcare | 108,391                                      | 34,996  | 73.2%   | 100.0% | 6.3                   | 3.6  | (3.5%)  | 8.8%   | 10.99  | 9.96   | 1.54   | 1.10   |
| Industrial | 29,995                                       | 251,831 | 0.0%  | 42.3%  | 3.0                   | 3.2  | (4.5%)  | 7.5%   | 0  | 0.32   | 1.21   | 0.48   |
| Retail     | 182,938                                      | 78,257  | 46.1%   | 37.4%  | 4.0                   | 3.7  | 28.1%   | 10.0%  | 1.87   | 1.88   | 0.04   | 0.05   |
| Total      | 651,564                                      | 587,882 | 59.9%   | 50.9%  | 3.7                   | 3.6  | 9.1%  | 2.7%   | \$3.56   | \$2.76 | \$1.12   | \$1.53 |

The leasing activity presented is based on leases signed or executed for our same-store rental properties during the period and is not intended to coincide with the commencement of rental revenue in accordance with GAAP. Prior (1) periods reflect amounts previously reported and exclude retroactive adjustments for properties reclassified to discontinued operations or non-same-store in the current period. Tenant improvements and leasing commissions are based on square feet leased during the period.

Renewal percentage of expiring leases is based on square footage of renewed leases and not the number of leases renewed. Beginning in the first quarter of fiscal year 2015, the category of renewed leases does not include leases (2) that have become month-to-month leases; these month-to-month leases are considered lease amendments. Previous-period data has been revised to reflect this change.

Represents the percentage change in effective rent between the original leases and the renewal leases. Effective (3) rents represent average annual base rental payments, on a straight-line basis for the term of each lease, excluding operating expense reimbursements. The underlying leases contain various expense structures including gross, modified gross, net and triple net.

The decline in the average growth in effective rents for the healthcare segment for the nine months ended January 31, 2015 when compared to the same period in the prior fiscal year is due to a 45,081 square foot lease renewal executed with the existing single tenant at our Pavilion I property in Duluth, Minnesota. This lease was renewed at a lower rate than the previous expiring lease due to very low leasing transaction costs associated with the lease renewal. Absent this lease transaction, the weighted average growth rate in effective rents for the nine months ended January 31, 2015 would have been 3.8%.

The increase in the weighted average growth in effective rents for the retail segment for the nine months ended January 31, 2015 when compared to the same period in the prior fiscal year is due to a 47,150 square foot lease renewal executed at our Rochester, Minnesota Maplewood Square property and a 36,752 square foot lease renewal executed at our St. Cloud Minnesota Westgate property. The increase in the rental rate at our Rochester, Minnesota property was primarily due to the improved financial condition of the tenant which enabled IRET to renew the lease at fair market rental rates. The lease renewal at our St. Cloud, Minnesota property contained a significant tenant improvement allowance negotiated by the tenant which enabled IRET to negotiate an increased rental rate as well. Absent these two lease transactions, the weighted average growth rate in effective rents for the retail segment for the nine months ended January 31, 2015 would have been 11.8%.

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## Lease Expirations

Our ability to maintain and improve occupancy rates, and base rents, primarily depends upon our continuing ability to re-lease expiring space. The following table reflects the in-service portfolio lease expiration schedule of our consolidated commercial segments properties, including square footage and annualized base rent for expiring leases, as of January 31, 2015.

| Fiscal Year of Lease Expiration | # of Leases | Square Footage of Expiring Leases <sup>(3)</sup> | Percentage of Total Commercial Segments Leased Square Footage | Annualized Base Rent of Expiring Leases at Expiration <sup>(2)</sup> | Percentage of Total Commercial Segments Annualized Base Rent |
|---------------------------------|-------------|--|---|--|--|
| 2015(remainder) <sup>(1)</sup>  | 63          | 439,791  | 5.1%  | \$5,194,075  | 4.5%   |
| 2016                            | 124         | 1,051,087  | 12.2%   | 12,563,469   | 10.9%  |
| 2017                            | 145         | 1,239,131  | 14.4%   | 19,394,557   | 16.8%  |
| 2018                            | 103         | 772,479  | 8.9%  | 11,874,316   | 10.3%  |
| 2019                            | 88          | 1,290,169  | 15.0%   | 17,851,438   | 15.5%  |
| 2020                            | 57          | 677,871  | 7.8%  | 7,981,396  | 6.9%   |
| 2021                            | 51          | 430,125  | 5.0%  | 6,096,329  | 5.3%   |
| 2022                            | 46          | 1,386,552  | 16.1%   | 17,577,646   | 15.3%  |
| 2023                            | 16          | 499,626  | 5.8%  | 2,519,283  | 2.2%   |
| 2024                            | 43          | 405,254  | 4.7%  | 6,313,940  | 5.5%   |
| Thereafter                      | 25          | 432,096  | 5.0%  | 7,825,276  | 6.8%   |
| Totals                          | 761         | 8,624,181  | 100.0%  | \$115,191,725  | 100.0%   |

(1) Includes month-to-month leases. As of January 31, 2015 month-to-month leases accounted for 342,968 square feet.

(2) Annualized Base Rent is monthly scheduled rent as of January 1, 2015, multiplied by 12.

(3) Assuming that none of the tenants exercise renewal or termination options, and including leases renewed prior to expiration. Also excludes 143,024 square feet of space occupied by IRET.

Because of the diverse property types in the Company's commercial portfolio and the dispersed locations of a substantial portion of the portfolio's properties in secondary and tertiary markets, information on current market rents is difficult to obtain, is highly subjective, and is often not directly comparable between properties. As a result, the Company believes that the increase or decrease in effective rent on its recent leases is the most objective and meaningful information available regarding rent trends and the relationship between rents on leases expiring in the near term and current market rents across the Company's markets. The Company believes that rents on its new and renewed leases generally approximate market rents.

## PROPERTY ACQUISITIONS AND DISPOSITIONS

During the third quarter of fiscal year 2015, the Company closed on its acquisition of an approximately 1.1-acre parcel of vacant land in Minot, ND, for a purchase price of \$1.3 million, paid in cash.

During the third quarter of fiscal year 2015, the Company sold one office property and one retail property for a total sales price of \$10.0 million. See Note 8 of the Notes to Condensed Consolidated Financial Statements in this report for a table detailing the Company's acquisitions and dispositions during the nine month periods ended January 31, 2015 and 2014.

## Development and Re-Development Projects

The following tables provide additional detail, as of January 31, 2015, on the Company's in-service (completed) development and re-development projects and development and re-development projects in progress. All of these projects are excluded from the same-store pool. The Company measures initial yield on its development projects upon completion and achievement of target lease-up levels by measuring net operating income from the development against the cost of the project. Estimated initial yields on the projects listed below range from an estimated approximate 6.0% to an estimated approximate 14.0% initial yield. The higher initial returns are for those projects that are located in certain of the Company's markets which are experiencing higher levels of economic growth due

primarily to energy development. In these markets, actual initial yields upon project completion have been above our initial projections due to heightened tenant demand, low vacancy and rent growth in this region. However, the Company currently expects that elevated construction costs in these markets, combined with increased development activity in the region, may make it less likely that actual initial yields upon project completion for the Company's development projects in progress in these markets will materially exceed the estimated initial yields forecast at the project underwriting stage. The Company expects these trends of elevated construction costs and increased competition from other developers to eventually move yields on its development projects in the region to more modest levels similar to returns being achieved in other parts of the United States.

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Projects Placed in Service in the Nine Months Ended January 31, 2015

| Project Name and Location                       | Segment                  | Total Rentable Square Feet or Number of Units | Percentage Leased or Committed | (in thousands)                        |   | (in fiscal years)                           |                        |                             |
|---|--------------------------|---|--------------------------------|---------------------------------------|---|---|------------------------|-----------------------------|
|   |                          |   |                                | Anticipated Total Cost <sup>(1)</sup> | Costs as of January 31, 2015 <sup>(1)</sup> | Cost per Square Foot or Unit <sup>(1)</sup> | Date Placed in Service | Anticipated Same-Store Date |
| Dakota Commons - Williston, ND                  | Multi-Family Residential | 44 units                                      | 100%                           | \$ 10,736                             | \$ 10,419                                   | \$ 244,000                                  | Q1 2015                | Q1 2017                     |
| Commons at Southgate - Minot, ND <sup>(2)</sup> | Multi-Family Residential | 233 units                                     | 85.8%                          | 37,201                                | 34,612                                      | 159,661                                     | Q3 2015                | Q1 2017                     |
| Minot Wells Fargo Bank - Minot, ND              | Retail                   | 4,998 sq ft                                   | 100%                           | 3,288                                 | 3,185                                       | 658   | Q3 2015                | Q1 2017                     |
| Cypress Court II - St. Cloud, MN <sup>(3)</sup> | Multi-Family Residential | 64 units                                      | 50.0%                          | 7,028                                 | 6,638                                       | 109,813                                     | Q3 2015                | Q1 2017                     |
| Arcata - Golden Valley, MN                      | Multi-Family Residential | 165 units                                     | 9.1%                           | 33,448                                | 30,384                                      | 202,715                                     | Q3 2015                | Q1 2017                     |
| Red 20 - Minneapolis, MN <sup>(4)</sup>         | Multi-Family Residential | 130 units                                     | 55.4%                          | 29,462                                | 28,330                                      | 226,631                                     | Q3 2015                | Q1 2017                     |
|   |                          |   |                                | \$ 121,163                            | \$ 113,568                                  |   |                        |                             |

(1) Excludes tenant improvements and leasing commissions.

(2) The Company is currently an approximately 52.9% partner in the joint venture entity constructing this project; the anticipated total cost amount given is the total cost to the joint venture entity.

(3) The Company is an approximately 86.1% partner in the joint venture entity constructing this project; the anticipated total cost amount given is the total cost to the joint venture entity.

(4) The Company is an approximately 58.6% partner in the joint venture entity constructing this project; the anticipated total cost amount given is the total cost to the joint venture entity. The anticipated total cost includes approximately 10,625 square feet of retail space.

Projects in Progress at January 31, 2015

| Project Name and Location                          | Planned Segment          | Rentable Square Feet or Number of Units | Percentage Leased or Committed | (in thousands)         |   | (in fiscal years)                   |  |
|--|--------------------------|---|--------------------------------|------------------------|---|-------------------------------------|--|
|  |                          |   |                                | Anticipated Total Cost | Costs as of January 31, 2015 <sup>(1)</sup> | Anticipated Construction Completion |  |
| Roseville 3075 Long Lake Rd - Roseville, MN        | Industrial               | 202,807 sq ft                           | 5.4%                           | 13,915                 | 8,900                                       | 4Q 2015                             |  |
| Minot Office Center - Minot, ND                    | Retail                   | 7,963 sq ft                             | 0%                             | 2,923                  | 1,802                                       | 1Q 2016                             |  |
| Renaissance Heights - Williston, ND <sup>(2)</sup> | Multi-Family Residential | 288 units                               | 46.9%                          | 62,362                 | 54,713                                      | 1Q 2016                             |  |
| Chateau II - Minot, ND                             | Multi-Family Residential | 72 units                                | 0%                             | 14,711                 | 11,257                                      | 1Q 2016                             |  |
| Edina 6565 France SMC III - Edina, MN              | Healthcare               | 57,479 sq ft                            | 24.2%                          | 34,665                 | 16,668                                      | 1Q 2016                             |  |
|  |                          | 251 units                               | 0%                             | 40,042                 | 19,885                                      | 2Q 2016                             |  |

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|  |                          |              |      |           |           |         |  |
|--|--------------------------|--------------|------|-----------|-----------|---------|--|
| Cardinal Point - Grand Forks, ND                 | Multi-Family Residential |              |      |           |           |         |  |
| Deer Ridge – Jamestown, ND                       | Multi-Family Residential | 163 units    | 4.9% | 24,519    | 11,202    | 2Q 2016 |  |
| PrairieCare Medical - Brooklyn Park, MN          | Healthcare               | 72,895 sq ft | 100% | 24,251    | 12,195    | 2Q 2016 |  |
| 71 France Phases I & II-Edina, MN <sup>(3)</sup> | Multi-Family Residential | 181 units    | 0%   | 52,055    | 20,787    | 3Q 2016 |  |
| Other  | n/a                      | n/a          | n/a  | n/a       | 2,547     | n/a     |  |
|  |                          |              |      | \$269,443 | \$159,956 |         |  |

(1) Includes costs related to development projects that are placed in service in phases (Renaissance Heights - \$46.0 million).

(2) The Company is an approximately 70% partner in the joint venture entity constructing this project; the anticipated total cost amount given is the total cost to the joint venture entity.

The project will be constructed in three phases by a joint venture entity in which the Company has an approximately 52.6% interest. The anticipated total cost amount given in the table above is the total cost to the joint venture entity of the project's first phase. The expected total project cost for all three phases is approximately \$73.3 million for a total of approximately 241 residential units and approximately 21,772 square feet of retail space.

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## FUNDS FROM OPERATIONS

IRET considers Funds from Operations ("FFO") a useful measure of performance for an equity REIT. IRET uses the definition of FFO adopted by the National Association of Real Estate Investment Trusts, Inc. ("NAREIT"). NAREIT defines FFO to mean "net income (computed in accordance with generally accepted accounting principles), excluding gains (or losses) from sales of property, plus depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures. Adjustments for unconsolidated partnerships and joint ventures will be calculated to reflect funds from operations on the same basis." In addition, in October 2011 NAREIT clarified its computation of FFO to exclude impairment charges for all periods presented. Because of limitations of the FFO definition adopted by NAREIT, IRET has made certain interpretations in applying the definition. IRET believes all such interpretations not specifically provided for in the NAREIT definition are consistent with the definition.

IRET management considers that FFO, by excluding depreciation costs, impairment write-downs, the gains or losses from the sale of operating real estate properties and extraordinary items as defined by U.S. GAAP, is useful to investors in providing an additional perspective on IRET's operating results. Historical cost accounting for real estate assets in accordance with U.S. GAAP assumes, through depreciation, that the value of real estate assets decreases predictably over time. However, real estate asset values have historically risen or fallen with market conditions. NAREIT's definition of FFO, by excluding depreciation costs, reflects the fact that real estate, as an asset class, generally appreciates over time and that depreciation charges required by U.S. GAAP may not reflect underlying economic realities. Additionally, the exclusion, in NAREIT's definition of FFO, of impairment write-downs and gains and losses from the sales of previously depreciated operating real estate assets, assists IRET management and investors in identifying the operating results of the long-term assets that form the core of IRET's investments, and assists in comparing those operating results between periods. FFO is used by IRET management and investors to identify trends in occupancy rates, rental rates and operating costs.

While FFO is widely used by REITs as a primary performance metric, not all real estate companies use the same definition of FFO or calculate FFO in the same way. Accordingly, FFO presented here is not necessarily comparable to FFO presented by other real estate companies. FFO should not be considered as an alternative to net income as determined in accordance with U.S. GAAP as a measure of IRET's performance, but rather should be considered as an additional, supplemental measure, and should be viewed in conjunction with net income as presented in the consolidated financial statements included in this report. FFO does not represent cash generated from operating activities in accordance with U.S. GAAP, and is not necessarily indicative of sufficient cash flow to fund all of IRET's needs or its ability to service indebtedness or make distributions.

FFO applicable to common shares and Units for the three months ended January 31, 2015 increased to \$23.4 million compared to \$22.7 million for the comparable period ended January 31, 2014, an increase of 3.1%. FFO applicable to common shares and Units for the nine months ended January 31, 2015 increased by 3.5% to \$64.6 million, compared to \$62.4 million for the nine months ended January 31, 2014.

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RECONCILIATION OF NET INCOME ATTRIBUTABLE TO  
INVESTORS REAL ESTATE TRUST TO FUNDS FROM OPERATIONS

| Three Months Ended January 31,                              | (in thousands, except per share amounts) |  |                                   |          |  |                                   |
|---|--|--|-----------------------------------|----------|--|-----------------------------------|
|   | 2015                                     |  |                                   | 2014     |  |                                   |
|   | Amount                                   | Weighted Avg Shares and Units <sup>(2)</sup> | Per Share And Unit <sup>(3)</sup> | Amount   | Weighted Avg Shares and Units <sup>(2)</sup> | Per Share And Unit <sup>(3)</sup> |
| Net income attributable to Investors Real Estate Trust      | \$8,371                                  |  |                                   | \$3,503  |  |                                   |
| Less dividends to preferred shareholders                    | (2,879)                                  |  |                                   | (2,879)  |  |                                   |
| Net income available to common shareholders                 | 5,492                                    | 120,855                                      | \$ 0.05                           | 624      | 106,208                                      | \$ 0.00                           |
| Adjustments:  |  |  |                                   |          |  |                                   |
| Noncontrolling interest – Operating Partnership             | 657                                      | 14,461                                       |                                   | 130      | 21,819                                       |                                   |
| Depreciation and amortization <sup>(1)</sup>                | 17,706                                   |  |                                   | 17,546   |  |                                   |
| Impairment of real estate investments                       | 540                                      |  |                                   | 4,798    |  |                                   |
| Gain on depreciable property sales                          | (951)                                    |  |                                   | (358)    |  |                                   |
| Funds from operations applicable to common shares and Units | \$23,444                                 | 135,316                                      | \$ 0.17                           | \$22,740 | 128,027                                      | \$ 0.17                           |

| Nine Months Ended January 31,                               | (in thousands, except per share amounts) |  |                                   |          |  |                                   |
|---|--|--|-----------------------------------|----------|--|-----------------------------------|
|   | 2015                                     |  |                                   | 2014     |  |                                   |
|   | Amount                                   | Weighted Avg Shares and Units <sup>(2)</sup> | Per Share And Unit <sup>(3)</sup> | Amount   | Weighted Avg Shares and Units <sup>(2)</sup> | Per Share And Unit <sup>(3)</sup> |
| Net income attributable to Investors Real Estate Trust      | \$13,334                                 |  |                                   | \$15,368 |  |                                   |
| Less dividends to preferred shareholders                    | (8,636)                                  |  |                                   | (8,636)  |  |                                   |
| Net income available to common shareholders                 | 4,698                                    | 116,303                                      | \$ 0.04                           | 6,732    | 104,472                                      | \$ 0.06                           |
| Adjustments:  |  |  |                                   |          |  |                                   |
| Noncontrolling interest – Operating Partnership             | 618                                      | 17,334                                       |                                   | 1,406    | 21,830                                       |                                   |
| Depreciation and amortization <sup>(4)</sup>                | 52,367                                   |  |                                   | 54,591   |  |                                   |
| Impairment of real estate investments                       | 6,105                                    |  |                                   | 6,658    |  |                                   |
| Loss (gain) on depreciable property sales                   | 811                                      |  |                                   | (6,999)  |  |                                   |
| Funds from operations applicable to common shares and Units | \$64,599                                 | 133,637                                      | \$ 0.48                           | \$62,388 | 126,302                                      | \$ 0.49                           |

Real estate depreciation and amortization consists of the sum of depreciation/amortization related to real estate investments and amortization related to non-real estate investments from the Condensed Consolidated Statements

(1) of Operations, totaling \$17,750 and \$17,489, and depreciation/amortization from Discontinued Operations of \$0 and \$77, less corporate-related depreciation and amortization on office equipment and other assets of \$44 and \$20, for the three months ended January 31, 2015 and 2014, respectively.

(2) UPREIT Units of the Operating Partnership are exchangeable for cash, or, at the Company's discretion, for common shares of beneficial interest on a one-for-one basis.

(3) Net income attributable to Investors Real Estate Trust is calculated on a per share basis. FFO is calculated on a per share and unit basis.

(4) Real estate depreciation and amortization consists of the sum of depreciation/amortization related to real estate investments and amortization related to non-real estate investments from the Condensed Consolidated Statements of Operations, totaling \$52,474 and \$53,656, and depreciation/amortization from Discontinued Operations of \$0 and \$1,010, less corporate-related depreciation and amortization on office equipment and other assets of \$107 and \$75 for the nine months ended January 31, 2015 and 2014, respectively.

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**DISTRIBUTIONS**

The following distributions per common share and unit were paid during the nine months ended January 31 of fiscal years 2015 and 2014:

| Month   | Fiscal  |         |
|---------|---------|---------|
|         | Year    | Year    |
|         | 2015    | 2014    |
| July    | \$.1300 | \$.1300 |
| October | \$.1300 | \$.1300 |
| January | \$.1300 | \$.1300 |

**LIQUIDITY AND CAPITAL RESOURCES****OVERVIEW**

The Company's principal liquidity demands are maintaining distributions to the holders of the Company's common and preferred shares of beneficial interest and Units, capital improvements and repairs and maintenance to the Company's properties, acquisition of additional properties, property development, tenant improvements and debt service and repayments.

The Company has historically met its short-term liquidity requirements through net cash flows provided by its operating activities, and, from time to time, through draws on secured and unsecured lines of credit. As of January 31, 2015, the Company had one multi-bank line of credit with a total commitment capacity of \$90.0 million, secured by mortgages on 15 Company properties. Management considers the Company's ability to generate cash from property operating activities, cash-out refinancing of existing properties and, from time to time, draws on its line of credit to be adequate to meet all operating requirements and to make distributions to its shareholders in accordance with the REIT provisions of the Internal Revenue Code. Budgeted expenditures for ongoing maintenance and capital improvements and renovations to our real estate portfolio are also generally expected to be funded from existing cash on hand, cash flow generated from property operations, cash-out refinancing of existing properties, and/or new borrowings.

However, the commercial real estate market continues to experience significant challenges including reduced tenant demand, occupancies and rental rates. In the event of deterioration in property operating results, or absent the Company's ability to successfully continue cash-out refinancing of existing properties and/or new borrowings, the Company may need to consider additional cash preservation alternatives, including scaling back development activities, capital improvements and renovations and reducing the level of distributions to shareholders.

To the extent the Company does not satisfy its long-term liquidity requirements, which consist primarily of maturities under the Company's long-term debt, construction and development activities and potential acquisition opportunities, through net cash flows provided by operating activities and its credit facilities, the Company intends to satisfy such requirements through a combination of funding sources which the Company believes will be available to it, including the issuance of Units, additional common or preferred equity, proceeds from the sale of properties, and additional long-term secured or short-term unsecured indebtedness.

**SOURCES AND USES OF CASH**

While credit markets are currently stable and credit availability is relatively unconstrained, underwriting on commercial real estate continues to be more conservative compared to the underwriting standards employed prior to the recessionary period. We continue to expect to be able to refinance our debt maturing in the next twelve months without significant issues, but we also expect lenders to continue to employ relatively conservative underwriting regarding asset quality, occupancy levels and tenant creditworthiness. Accordingly, we continue to be cautious regarding our ability in the remainder of fiscal year 2015 to rely on cash-out refinancing at levels we had achieved prior to the recessionary period, to provide funds for investment opportunities and other corporate purposes. Additionally, while to date there has been no material negative impact on our ability to borrow in our multi-family segment, we continue to closely monitor proposals to phase out or modify the roles of the Federal Home Loan Mortgage Corporation (Freddie Mac) and the Federal National Mortgage Association (Fannie Mae) in financing multi-family residential properties. As we have previously noted, we consider that one of the consequences of a modification in the agencies' roles could potentially be a narrowing of their lending focus away from the smaller secondary or tertiary markets which we generally target, to multi-family residential properties in major metropolitan markets. IRET obtains a majority of its multi-family debt from primarily Freddie Mac. Our current plan is to refinance

a majority of our maturing multi-family debt with these two entities, so any change in their ability or willingness to lend going forward will most likely result in higher loan costs or more constricted availability of financing for us; accordingly, we continue to closely monitor announcements regarding both firms. As of January 31, 2015 approximately 5.0%, or \$1.9 million, of our mortgage debt maturing in the fourth quarter of fiscal year 2015 and first quarter of fiscal year 2016 is debt placed on properties on multi-family residential assets, and approximately 95.0%, or \$36.2 million, is debt placed on properties in our office segment. Of this \$38.1 million, approximately \$8.2 million will be extended to June 8, 2015, as allowed by the terms of the loan, and we expect to pay off \$29.9 million in the fourth quarter of fiscal year 2015 and first quarter of fiscal year 2016. As of January 31, 2015, approximately

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12.8%, or \$10.2 million, of our mortgage debt maturing in the next twelve months is debt placed on multi-family residential assets, and approximately 87.2%, or \$69.4 million, is debt placed on properties in our office, healthcare and industrial segments.

The Company's revolving, multi-bank line of credit with First International Bank and Trust, Watford City, North Dakota, as lead bank, had, as of January 31, 2015, lending commitments of \$90.0 million. As of January 31, 2015, the line of credit was secured by mortgages on 15 properties; under the terms of the line of credit, properties may be added and removed from the collateral pool with the agreement of the lenders. Participants in this credit facility as of January 31, 2015 included, in addition to First International Bank, the following financial institutions: The Bank of North Dakota; First Western Bank and Trust; Dacotah Bank; Highland Bank; American State Bank & Trust Company; Town & Country Credit Union and United Community Bank. As of January 31, 2015, the line of credit had an interest rate of 4.75% and a minimum outstanding principal balance requirement of \$17.5 million, and as of January 31, 2015 and April 30, 2014, the Company had borrowed \$50.5 million and \$22.5 million, respectively. The facility includes covenants and restrictions requiring the Company to achieve on a fiscal and calendar quarter basis a debt service coverage ratio on borrowing base collateral of 1.25x in the aggregate and 1.00x on individual assets in the collateral pool, and the Company is also required to maintain minimum depository account(s) totaling \$6.0 million with First International, of which \$1.5 million is to be held in a non-interest bearing account. As of January 31, 2015, the Company believes it was in compliance with the facility covenants.

The Company maintains compensating balances, not restricted as to withdrawal, with several financial institutions in connection with financing received from those institutions and/or to ensure future credit availability. At January 31, 2015, the Company's compensating balances totaled \$14.3 million and consisted of the following: First International Bank, Watford City, North Dakota, deposit of \$6.1 million; Private Bank, Minneapolis, Minnesota, deposit of \$2.0 million; Associated Bank, Green Bay, Wisconsin, deposit of \$3.6 million; American National Bank, Omaha, Nebraska, deposit of \$400,000; Dacotah Bank, Minot, North Dakota, deposit of \$350,000; United Community Bank, Minot, North Dakota, deposit of \$275,000; Peoples State Bank of Velva, North Dakota, deposit of \$225,000, Commerce Bank, a Minnesota Banking Corporation, deposit of \$100,000, and Bremer Bank, Saint Paul, Minnesota, deposit of \$1.3 million. The deposits at United Community Bank and a portion of the deposit at Dacotah Bank are held as certificates of deposit and comprise the approximately \$329,000 in other investments on the Condensed Consolidated Balance Sheets. The certificates of deposit have remaining terms of less than two years and the Company intends to hold them to maturity.

Current anticipated total project costs for development projects in progress at January 31, 2015 total approximately \$379.9 million (including costs incurred by project joint venture entities), of which approximately \$263.1 million has been incurred as of January 31, 2015. As of January 31, 2015, the Company's Operating Partnership (or the project joint venture entities), had entered into construction loans totaling approximately \$219.6 million for development projects in progress. In addition to current planned expenditures for development projects in progress, as of January 31, 2015, the Company is committed to fund \$9.3 million in tenant improvements, within approximately the next 12 months.

The issuance of Units for property acquisitions continues to be an expected source of capital for the Company. There were no Units issued in the three months ended January 31, 2015. In the nine months ended January 31, 2015, approximately 11,000 Units, valued at issuance at \$100,000 were issued in connection with the Company's acquisition of property. There were no Units issued in the three months ended January 31, 2014. During the nine months ended January 31, 2014, approximately 361,000 Units, valued at issuance at \$3.5 million were issued in connection with the Company's acquisition of property.

The Company has a Distribution Reinvestment and Share Purchase Plan ("DRIP"). The DRIP provides common shareholders and Unitholders of the Company an opportunity to invest their cash distributions in common shares of the Company, and purchase additional shares through voluntary cash contributions, at a discount (currently 3%) from the market price. The maximum monthly voluntary cash contribution permitted without prior Company approval is currently \$10,000. The Company can issue waivers to DRIP participants to provide for investments in excess of the \$10,000 maximum monthly investment. There were no waivers issued during the three months ended January 31, 2015 and 2014. During the nine months ended January 31, 2015, the Company issued approximately 926,000 shares at an average price of \$8.64 per share pursuant to such waivers, for total net proceeds to the Company of \$8.0 million. During the nine months ended January 31, 2014, Company issued 1.4 million shares at an average price of \$8.88 per

share pursuant to such waivers, for total net proceeds to the Company of \$12.0 million.

Cash and cash equivalents at January 31, 2015 totaled \$52.1 million, compared to \$53.5 million at January 31, 2014, a decrease of \$1.3 million. Net cash provided by operating activities for the nine months ended January 31, 2015 increased by \$23.5 million, primarily due to an increase in adjusted net income and the collection of insurance proceeds in accounts receivable, compared to the nine months ended January 31, 2014. Net cash used by investing activities increased by \$74.3 million for the nine months ended January 31, 2015 compared to the nine months ended January 31, 2014, primarily due to an increase in payments for development and redevelopment of real estate assets and a decrease in proceeds from the sale of properties. Net cash provided by financing activities was \$84.4 million for the nine months ended January 31, 2015, compared to \$12.0 million used by financing activities in the comparable period of the prior fiscal year. This change was primarily due to an increase in proceeds from mortgage and construction debt and the Company's revolving line of credit.

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## FINANCIAL CONDITION

**Mortgage Loan Indebtedness.** Mortgage loan indebtedness increased by \$8.5 million as of January 31, 2015, compared to April 30, 2014, due to new loans and the assumption of existing mortgages in conjunction with the acquisition of property. As of January 31, 2015, approximately 92.2% of the Company's \$1.0 billion of mortgage debt is at fixed rates of interest, with staggered maturities. This limits the Company's exposure to changes in interest rates, which minimizes the effect of interest rate fluctuations on the Company's results of operations and cash flows. As of January 31, 2015, the weighted average rate of interest on the Company's mortgage debt was 5.17%, compared to 5.37% on April 30, 2014.

**Property Owned.** Property owned was \$2.1 billion at January 31, 2015 compared to \$2.0 billion at April 30, 2014. During the nine months ended January 31, 2015, the Company acquired nine additional investment properties and disposed of nine properties, as described above in the "Property Acquisitions and Dispositions" subsection of this Management's Discussion and Analysis of Financial Condition and Results of Operations.

**Cash and Cash Equivalents.** Cash and cash equivalents on hand on January 31, 2015 were \$52.1 million, compared to \$47.3 million on April 30, 2014.

**Other Investments.** Other investments, consisting of certificates of deposit held primarily for compensating balances, totaled approximately \$329,000 on January 31, 2015 and on April 30, 2014.

**Operating Partnership Units.** Outstanding units in the Operating Partnership decreased to 14.4 million Units at January 31, 2015 compared to 21.1 million Units outstanding at April 30, 2014. The decrease resulted primarily from the conversion of Units in exchange for common shares.

**Common and Preferred Shares of Beneficial Interest.** Common shares of beneficial interest outstanding on January 31, 2015 totaled 122.1 million, compared to 109.0 million outstanding on April 30, 2014. The Company issued common shares pursuant to its Distribution Reinvestment and Share Purchase Plan, consisting of 6.2 million common shares issued during the nine months ended January 31, 2015, for a total value of \$50.9 million. Conversions of 6.7 million Units to common shares, for a total of \$38.5 million in IRET shareholders' equity, also increased the Company's common shares of beneficial interest outstanding during the nine months ended January 31, 2015.

## ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our exposure to market risk is limited primarily to fluctuations in the general level of interest rates on our current and future fixed and variable rate debt obligations.

**Variable interest rates.** Because approximately 92.2% and 97.9% of our mortgage debt, as of January 31, 2015 and April 30, 2014, respectively, is at fixed interest rates, we have little exposure to interest rate fluctuation risk on our existing mortgage debt, and accordingly interest rate fluctuations during the third quarter of fiscal year 2015 did not have a material effect on the Company. However, even though our goal is to maintain a fairly low exposure to interest rate risk, we are still vulnerable to significant fluctuations in interest rates on any future repricing or refinancing of our fixed or variable rate debt, and on future debt. We primarily use long-term (more than nine years) and medium term (five to seven years) debt as a source of capital. We do not currently use derivative securities, interest rate swaps or any other type of hedging activity to manage our interest rate risk. As of January 31, 2015, we had the following amount of future principal and interest payments due on mortgages secured by our real estate:

| Mortgages                                     | (in thousands)        |             |             |             |             | Thereafter | Total       | Fair Value  |
|---|-----------------------|-------------|-------------|-------------|-------------|------------|-------------|-------------|
|   | Remaining Fiscal 2015 | Fiscal 2016 | Fiscal 2017 | Fiscal 2018 | Fiscal 2019 |            |             |             |
| Fixed Rate                                    | \$21,997              | \$120,806   | \$187,010   | \$56,118    | \$128,391   | \$413,402  | \$927,724   | \$1,139,370 |
| Average Fixed Interest Rate <sup>(1)</sup>    | 5.31%                 | 5.14%       | 4.79%       | 5.14%       | 4.76%       |            |             |             |
| Variable Rate                                 | \$393                 | \$9,397     | \$16,500    | \$31,921    | \$6,112     | \$14,132   | \$78,455    | \$78,455    |
| Average Variable Interest Rate <sup>(1)</sup> | 2.93%                 | 2.84%       | 2.86%       | 2.93%       | 2.97%       |            |             |             |
|   |                       |             |             |             |             |            | \$1,006,179 | \$1,217,825 |

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(in thousands)

| Mortgages     | Future Interest Payments |             |             |             |             |            | Total      |
|---------------|--------------------------|-------------|-------------|-------------|-------------|------------|------------|
|               | Remaining Fiscal 2015    | Fiscal 2016 | Fiscal 2017 | Fiscal 2018 | Fiscal 2019 | Thereafter |            |
| Fixed Rate    | \$ 12,326                | \$ 46,520   | \$ 37,586   | \$ 30,734   | \$ 25,771   | \$ 50,067  | \$ 203,004 |
| Variable Rate | 575                      | 2,062       | 1,947       | 957         | 588         | 189        | 6,318      |
|               |                          |             |             |             |             |            | \$ 209,322 |

(1) Interest rate given is for the entire year.

The weighted average interest rate on our fixed rate and variable rate debt as of January 31, 2015, was 5.17%. Any fluctuations in variable interest rates could increase or decrease our interest expenses. For example, an increase of one percent per annum on our \$78.5 million of variable rate mortgage indebtedness would increase our annual interest expense by approximately \$785,000.

#### ITEM 4. CONTROLS AND PROCEDURES

IRET's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this report. Based on such evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of January 31, 2015, such disclosure controls and procedures were effective to ensure that information required to be disclosed by IRET in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Commission's rules and forms, and is accumulated and communicated to management, including the Company's principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

**Internal Control Over Financial Reporting:** There have not been any changes in the Company's internal control over financial reporting (as such term is defined in Rule 13a-15(f) under the Securities and Exchange Act of 1934, as amended) during the fiscal quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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PART II — OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

Important factors that could cause our actual results to be materially different from expectations expressed in forward-looking statements include the risk factors previously disclosed in our Annual Report on Form 10-K for the fiscal year ended April 30, 2014.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

During the third quarter of fiscal year 2015, the Company issued an aggregate of 294,092 unregistered common shares to holders of limited partnership units of IRET Properties, on a one-for-one basis upon redemption and conversion of an equal number of limited partnership units. All such issuances of common shares were exempt from registration as private placements under Section 4(2) of the Securities Act, including Regulation D promulgated thereunder. The Company has registered the re-sale of such common shares under the Securities Act.

Item 3. Defaults Upon Senior Securities

None

Item 4. Mine Safety Disclosures

Not Applicable

Item 5. Other Information

None

Item 6. Exhibits

Exhibit

| No.         | Description  |
|-------------|--|
| <u>12</u>   | Calculation of Ratio of Earnings to Fixed Charges and Earnings to Combined Fixed Charges and Preferred Share Distributions   |
| <u>31.1</u> | Certification by Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.  |
| <u>31.2</u> | Certification by Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.  |
| <u>32</u>   | Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.  |
| 101         | The following materials from our Quarterly Report on Form 10-Q for the quarter ended January 31, 2015 formatted in eXtensible Business Reporting Language ("XBRL"): (i) the Condensed Consolidated Balance Sheets, (ii) the Condensed Consolidated Statements of Operations, (ii) the Condensed Consolidated Statements of Equity, (iv) the Condensed Consolidated Statements of Cash Flows, and (v) notes to these condensed consolidated financial statements. |

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Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

INVESTORS REAL ESTATE TRUST

(Registrant)

/s/ Timothy P. Mihalick

Timothy P. Mihalick

President and Chief Executive Officer

/s/ Ted E. Holmes

Ted E. Holmes

Executive Vice President and Chief Financial Officer

Date: March 12, 2015

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Exhibit Index

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