

INVESTORS REAL ESTATE TRUST  
Form 10-Q  
March 11, 2008

**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, 2008**

**Commission File Number 0-14851**

**INVESTORS REAL ESTATE TRUST**  
(Exact name of registrant as specified in its charter)

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

**45-0311232**  
(I.R.S. Employer Identification No.)

**Post Office Box 1988  
12 Main Street South  
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**  **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**  **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 o No b

Registrant is a North Dakota Real Estate Investment Trust. As of March 3, 2008, it had 57,411,674.808 common shares of beneficial interest outstanding.

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**INVESTORS REAL ESTATE TRUST AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS (unaudited)**

*(in thousands)*

**January 31,**  
**2008                      April 30, 2007**

**ASSETS**

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|  |                     |                     |
|--|---------------------|---------------------|
| Real estate investments  |                     |                     |
| Property owned   | \$ 1,558,560        | \$ 1,489,287        |
| Less accumulated depreciation                                      | (209,400)           | (180,544)           |
|  | 1,349,160           | 1,308,743           |
| Unimproved land  | 18,635              | 7,392               |
| Mortgage loan receivable, net of allowance                         | 548                 | 399                 |
| Total real estate investments                                      | 1,368,343           | 1,316,534           |
| Other assets   |                     |                     |
| Cash and cash equivalents  | 76,392              | 44,516              |
| Marketable securities available-for-sale                           | 2,160               | 2,048               |
| Receivable arising from straight-lining of rents, net of allowance | 13,753              | 12,558              |
| Accounts receivable, net of allowance                              | 3,842               | 3,171               |
| Real estate deposits   | 1,103               | 735                 |
| Prepaid and other assets   | 821                 | 568                 |
| Intangible assets, net of accumulated amortization                 | 29,025              | 33,240              |
| Tax, insurance, and other escrow                                   | 8,060               | 7,222               |
| Property and equipment, net  | 1,487               | 1,458               |
| Goodwill   | 1,396               | 1,397               |
| Deferred charges and leasing costs, net                            | 13,528              | 11,942              |
| <b>TOTAL ASSETS</b>  | <b>\$ 1,519,910</b> | <b>\$ 1,435,389</b> |

**LIABILITIES AND SHAREHOLDERS' EQUITY**

**LIABILITIES**

|                                       |                  |                |
|---------------------------------------|------------------|----------------|
| Accounts payable and accrued expenses | \$ 29,573        | \$ 28,995      |
| Mortgages payable                     | 975,785          | 951,139        |
| Other                                 | 1,019            | 896            |
| <b>TOTAL LIABILITIES</b>              | <b>1,006,377</b> | <b>981,030</b> |

**COMMITMENTS AND CONTINGENCIES (NOTE 6)**

|  |               |               |
|--|---------------|---------------|
| <b>MINORITY INTEREST IN PARTNERSHIPS</b> | <b>12,768</b> | <b>12,925</b> |
|--|---------------|---------------|

|  |                |                |
|--|----------------|----------------|
| <b>MINORITY INTEREST OF UNITHOLDERS IN OPERATING PARTNERSHIP</b>                     | <b>155,301</b> | <b>156,465</b> |
| <i>(20,395,411 units at January 31, 2008 and 19,981,259 units at April 30, 2007)</i> |                |                |

**SHAREHOLDERS' EQUITY**

|   |        |        |
|---|--------|--------|
| <i>Preferred Shares of Beneficial Interest (Cumulative redeemable preferred shares, no par value, 1,150,000 shares issued and outstanding at January 31, 2008 and April 30, 2007, aggregate liquidation preference of \$28,750,000)</i> | 27,317 | 27,317 |
|---|--------|--------|

|   |         |         |
|---|---------|---------|
| <i>Common Shares of Beneficial Interest (Unlimited authorization, no par value, 56,977,406 shares issued and outstanding at January 31, 2008, and 48,570,461 shares issued and outstanding at April 30, 2007)</i> | 433,645 | 354,495 |
|---|---------|---------|

|   |           |          |
|---|-----------|----------|
| Accumulated distributions in excess of net income | (115,546) | (96,827) |
|---|-----------|----------|

|   |    |      |
|---|----|------|
| Accumulated other comprehensive income (loss) | 48 | (16) |
|---|----|------|

|                            |         |         |
|----------------------------|---------|---------|
| Total shareholders' equity | 345,464 | 284,969 |
|----------------------------|---------|---------|

|   |                     |                     |
|---|---------------------|---------------------|
| <b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b> | <b>\$ 1,519,910</b> | <b>\$ 1,435,389</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 OPERATIONS (unaudited)**

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for the three months and nine months ended January 31, 2008 and 2007

|  | Three Months Ended                           |                 | Nine Months Ended |                 |
|--|--|-----------------|-------------------|-----------------|
|  | January 31                                   |                 | January 31        |                 |
|  | <i>(in thousands, except per share data)</i> |                 |                   |                 |
|  | 2008   | 2007            | 2008              | 2007            |
| <b>REVENUE</b>   |  |                 |                   |                 |
| Real estate rentals  | \$ 44,703                                    | \$ 42,286       | \$ 133,469        | \$ 118,822      |
| Tenant reimbursement   | 9,769  | 8,810           | 28,919            | 25,255          |
| <b>TOTAL REVENUE</b>   | <b>54,472</b>                                | <b>51,096</b>   | <b>162,388</b>    | <b>144,077</b>  |
| <b>OPERATING EXPENSE</b>   |  |                 |                   |                 |
| Interest   | 15,840                                       | 15,220          | 46,969            | 43,126          |
| Depreciation/amortization related to real estate investments   | 12,165                                       | 11,718          | 36,547            | 32,663          |
| Utilities  | 4,192  | 4,003           | 12,454            | 10,634          |
| Maintenance  | 6,188  | 4,987           | 18,225            | 15,424          |
| Real estate taxes  | 6,749  | 6,147           | 19,659            | 16,959          |
| Insurance  | 670  | 612             | 1,928             | 1,761           |
| Property management expenses   | 3,794  | 3,309           | 11,317            | 10,029          |
| Administrative expenses  | 1,234  | 1,169           | 3,457             | 3,066           |
| Advisory and trustee services  | 114  | 68              | 354               | 208             |
| Other operating expenses   | 343  | 319             | 1,053             | 933             |
| Amortization related to non-real estate investments  | 356  | 261             | 1,039             | 720             |
| <b>TOTAL OPERATING EXPENSE</b>   | <b>51,645</b>                                | <b>47,813</b>   | <b>153,002</b>    | <b>135,523</b>  |
| Operating income   | 2,827  | 3,283           | 9,386             | 8,554           |
| Interest income  | 953  | 700             | 1,646             | 1,403           |
| Other non-operating income   | 70   | 308             | 443               | 567             |
| Income before minority interest and discontinued operations and gain (loss) on sale of other investments | 3,850  | 4,291           | 11,475            | 10,524          |
| Gain (loss) on sale of other investments   | 2  | 0               | 4                 | (36)            |
| Minority interest portion of operating partnership income  | (858)  | (1,054)         | (2,704)           | (2,303)         |
| Minority interest portion of other partnerships' (income) loss   | (11)   | 12              | 25                | (13)            |
| Income from continuing operations  | 2,983  | 3,249           | 8,800             | 8,172           |
| Discontinued operations, net of minority interest  | 0  | 205             | 0                 | 1,903           |
| <b>NET INCOME</b>  | <b>2,983</b>                                 | <b>3,454</b>    | <b>8,800</b>      | <b>10,075</b>   |
| Dividends to preferred shareholders  | (593)  | (593)           | (1,779)           | (1,779)         |
| <b>NET INCOME AVAILABLE TO COMMON SHAREHOLDERS</b>   | <b>\$ 2,390</b>                              | <b>\$ 2,861</b> | <b>\$ 7,021</b>   | <b>\$ 8,296</b> |
| Earnings per common share from continuing operations   | \$ .04                                       | \$ .06          | \$ .14            | \$ .13          |
| Earnings per common share from discontinued operations   | .00  | .00             | .00               | .04             |
| <b>NET INCOME PER COMMON SHARE BASIC AND DILUTED</b>   | <b>\$ .04</b>                                | <b>\$ .06</b>   | <b>\$ .14</b>     | <b>\$ .17</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 STATEMENT OF SHAREHOLDERS' EQUITY** *(unaudited)*  
*for the nine months ended January 31, 2008*

*(in thousands)*

|   | NUMBER<br>OF<br>PREFERRED<br>SHARES |           | NUMBER<br>OF<br>COMMON<br>SHARES |            | ACCUMULATED<br>DISTRIBUTIONS<br>IN EXCESS<br>NET<br>INCOME | OTHER<br>COMPREHENSIVE<br>INCOME<br>(LOSS) | TOTAL<br>SHAREHOLDERS'<br>EQUITY |
|---|-------------------------------------|-----------|----------------------------------|------------|--|--|----------------------------------|
| Balance May 1, 2007                                     | 1,150                               | \$ 27,317 | 48,570                           | \$ 354,495 | \$ (96,827)  | \$ (16)                                    | \$ 284,969                       |
| Comprehensive<br>Income                                 |                                     |           |                                  |            |  |  |                                  |
| Net income  |                                     |           |                                  |            | 8,800  |  | 8,800                            |
| Unrealized gain on<br>securities<br>available-for- sale |                                     |           |                                  |            |  | 64   | 64                               |
| Total comprehensive<br>income                           |                                     |           |                                  |            |  |  | 8,864                            |
| Distributions<br>common shares                          |                                     |           |                                  |            | (25,740)   |  | (25,740)                         |
| Distributions<br>preferred shares                       |                                     |           |                                  |            | (1,779)  |  | (1,779)                          |
| Distribution<br>reinvestment plan                       |                                     |           | 883                              | 8,407      |  |  | 8,407                            |
| Sale of shares  |                                     |           | 6,906                            | 66,420     |  |  | 66,420                           |
| Redemption of units<br>for common shares                |                                     |           | 619                              | 4,335      |  |  | 4,335                            |
| Fractional shares<br>repurchased                        |                                     |           | (1)                              | (12)       |  |  | (12)                             |
| Balance January 31,<br>2008                             | 1,150                               | \$ 27,317 | 56,977                           | \$ 433,645 | \$ (115,546)   | \$ 48                                      | \$ 345,464                       |

*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, 2008 and 2007*

|   | <i>(in thousands)</i> |                  |
|---|-----------------------|------------------|
|   | <b>2008</b>           | <b>2007</b>      |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                       |                       |                  |
| Net Income  | \$ 8,800              | \$ 10,075        |
| Adjustments to reconcile net income to net cash provided by operating activities: |                       |                  |
| Depreciation and amortization   | 38,156                | 34,289           |
| Minority interest portion of income   | 2,679                 | 2,922            |
| Gain on sale of real estate, land and other investments                           | (4)                   | (2,986)          |
| Loss on impairment of real estate investments                                     | 0                     | 640              |
| Bad debt expense  | 696                   | 335              |
| Changes in other assets and liabilities:  |                       |                  |
| Increase in receivable arising from straight-lining of rents                      | (1,268)               | (1,981)          |
| Increase in accounts receivable   | (961)                 | (476)            |
| Increase in prepaid and other assets  | (253)                 | (247)            |
| (Increase) decrease in tax, insurance and other escrow                            | (838)                 | 1,950            |
| Increase in deferred charges and leasing costs                                    | (3,412)               | (3,608)          |
| (Decrease) increase in accounts payable, accrued expenses, and other liabilities  | (128)                 | 2,719            |
| Net cash provided by operating activities   | 43,467                | 43,632           |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                                       |                       |                  |
| Proceeds from sale of marketable securities available-for-sale                    | 6                     | 828              |
| Net payments of real estate deposits  | (368)                 | (128)            |
| Principal proceeds on mortgage loans receivable                                   | 18                    | 17               |
| Investment in mortgage loans receivable   | (167)                 | 0                |
| Purchase of marketable securities available-for-sale                              | (54)                  | 0                |
| Proceeds from sale of real estate and other investments                           | 471                   | 15,678           |
| Insurance proceeds received   | 417                   | 0                |
| Payments for acquisitions and improvements of real estate investments             | (62,757)              | (160,580)        |
| Net cash used by investing activities   | (62,434)              | (144,185)        |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                                       |                       |                  |
| Proceeds from sale of common shares, net of issue costs                           | 66,420                | 205              |
| Proceeds from mortgages payable   | 32,688                | 235,814          |
| Proceeds from revolving lines of credit   | 0                     | 15,500           |
| Proceeds from minority partner  | 0                     | 53               |
| Repurchase of fractional shares and minority interest units                       | (12)                  | (14)             |
| Distributions paid to common shareholders, net of reinvestment                    | (17,907)              | (15,475)         |
| Distributions paid to preferred shareholders                                      | (1,779)               | (1,779)          |
| Distributions paid to unitholders of operating partnership                        | (9,526)               | (7,239)          |
| Distributions paid to other minority partners                                     | (132)                 | (153)            |
| Redemption of investment certificates   | (11)                  | (2,350)          |
| Principal payments on mortgages payable   | (18,842)              | (78,828)         |
| Principal payments on revolving lines of credit and other debt                    | (56)                  | (19,063)         |
| Net cash provided by financing activities   | 50,843                | 126,671          |
| <b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>                                  | <b>31,876</b>         | <b>26,118</b>    |
| <b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>                           | <b>44,516</b>         | <b>17,485</b>    |
| <b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>                                 | <b>\$ 76,392</b>      | <b>\$ 43,603</b> |

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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, 2008 and 2007*

|   | <i>(in thousands)</i> |             |
|---|-----------------------|-------------|
|   | <b>2008</b>           | <b>2007</b> |
| <b>SUPPLEMENTARY SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES FOR THE PERIOD</b>       |                       |             |
| Distribution reinvestment plan  | \$ 7,833              | \$ 7,992    |
| UPREIT distribution reinvestment plan   | 574                   | 600         |
| Real estate investment acquired through assumption of mortgage loans payable and accrual of costs | 10,800                | 13,167      |
| Assets acquired through the issuance of minority interest units in the operating partnership      | 10,566                | 56,791      |
| Operating partnership units converted to shares   | 4,335                 | 2,917       |
| <b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>   |                       |             |
| Cash paid during the period for:  |                       |             |
| Interest on mortgages   | 46,142                | 41,721      |
| Interest other  | 63                    | 937         |
|   | \$ 46,205             | \$ 42,658   |

*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, 2008 and 2007*

**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. REITs 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. 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, Montana, Missouri, Nebraska, South Dakota, Texas, Michigan and Wisconsin. As of January 31, 2008, IRET owned 70 multi-family residential properties with 9,548 apartment units and 154 commercial properties, consisting of office, medical, industrial and retail properties, totaling 10.8 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 its 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 73.6% and 70.9%, respectively, as of January 31, 2008 and April 30, 2007. The limited partners 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 minority interests reflecting the minority 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 are omitted. The year-end balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America. 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.



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, 2007, filed with the SEC.

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### **RECLASSIFICATIONS**

Certain previously reported amounts have been reclassified to conform to the current financial statement presentation. The Company reports, in discontinued operations, the results of operations of a property that has either been disposed of or is classified as held for sale and the related gains or losses, and as a result of discontinued operations, reclassifications of prior year numbers have been made.

### **RECENT ACCOUNTING PRONOUNCEMENTS**

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB 51* ("SFAS 160"). SFAS 160 changes the accounting and reporting for minority interests. Minority interests will be recharacterized as noncontrolling interests and will be reported as a component of equity separate from the parent's equity, and purchases or sales of equity interests that do not result in a change in control will be accounted for as equity transactions. In addition, net income attributable to the noncontrolling interest will be included in consolidated net income on the face of the income statement and upon a loss of control, the interest sold, as well as any interest retained, will be recorded at fair value with any gain or loss recognized in earnings. SFAS 160 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years, except for the presentation and disclosure requirements, which will apply retrospectively. We are currently evaluating the impact of adopting SFAS 160 on our consolidated results of operations and financial condition.

In December 2007, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 141(R), *Business Combinations* ("SFAS 141(R)"). This new standard will significantly change the accounting for and reporting of business combination transactions in consolidated financial statements. SFAS 141(R) requires an acquiring entity to recognize acquired assets and liabilities assumed in a transaction at fair value as of the acquisition date, changes the disclosure requirements for business combination transactions and changes the accounting treatment for certain items, including contingent consideration agreements which will be required to be recorded at acquisition date fair value and acquisition costs which will be required to be expensed as incurred. SFAS 141(R) is to be applied prospectively for the first annual reporting period beginning on or after December 15, 2008. Early adoption of the standard is prohibited. The Company is currently evaluating the impact of this statement on the Company's consolidated financial statements.

In February 2007, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* ("SFAS 159"). SFAS 159 permits entities to irrevocably elect fair value on a contract-by-contract basis as the initial and subsequent measurement attribute for many financial assets and liabilities and certain other items including property and casualty insurance contracts. SFAS 159 is effective for the Company on May 1, 2008. We are currently assessing the impact of adopting SFAS 159.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*, ("SFAS 157"), which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. SFAS 157 is effective for the Company on May 1, 2008. We are currently evaluating the impact of adopting SFAS 157.

**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 common shares that would result in a dilution of earnings. While Units can be exchanged for common shares on a one-for-one basis after a minimum holding period of one year, the exchange of Units for common shares has no effect on net income per share, as Unitholders and common shareholders effectively share equally in the net income of the Operating Partnership. 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 months and nine months ended January 31, 2008 and 2007:

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|  | <b>Three Months Ended</b>                    |               | <b>Nine Months Ended</b> |               |
|--|--|---------------|--------------------------|---------------|
|  | <b>January 31</b>                            |               | <b>January 31</b>        |               |
|  | <i>(in thousands, except per share data)</i> |               |                          |               |
|  | <b>2008</b>                                  | <b>2007</b>   | <b>2008</b>              | <b>2007</b>   |
| <b>NUMERATOR</b>   |  |               |                          |               |
| Income from continuing operations  | \$ 2,983                                     | \$ 3,249      | \$ 8,800                 | \$ 8,172      |
| Discontinued operations, net   | 0  | 205           | 0                        | 1,903         |
| Net income   | 2,983  | 3,454         | 8,800                    | 10,075        |
| Dividends to preferred shareholders                                      | (593)  | (593)         | (1,779)                  | (1,779)       |
| Numerator for basic earnings per share                                   | net income available                         |               |                          |               |
| to   |  |               |                          |               |
| common shareholders  | 2,390  | 2,861         | 7,021                    | 8,296         |
| Minority interest portion of operating partnership income                | 858  | 1,139         | 2,704                    | 2,909         |
| Numerator for diluted earnings per share                                 | \$ 3,248                                     | \$ 4,000      | \$ 9,725                 | \$ 11,205     |
| <b>DENOMINATOR</b>   |  |               |                          |               |
| Denominator for basic earnings per share - weighted average shares       | 55,304                                       | 47,895        | 51,214                   | 47,466        |
| Effect of convertible operating partnership units                        | 20,451                                       | 19,576        | 20,406                   | 16,366        |
| Denominator for diluted earnings per share                               | 75,755                                       | 67,471        | 71,620                   | 63,832        |
| Earnings per common share from continuing operations basic and diluted   | \$ .04                                       | \$ .06        | \$ .14                   | \$ .13        |
| Earnings per common share from discontinued operations basic and diluted | .00  | .00           | .00                      | .04           |
| <b>NET INCOME PER COMMON SHARE BASIC AND DILUTED</b>                     | <b>\$ .04</b>                                | <b>\$ .06</b> | <b>\$ .14</b>            | <b>\$ .17</b> |

**NOTE 4 • SHAREHOLDERS' EQUITY**

During the second quarter of fiscal year 2008, the Company sold 6,900,000 common shares in a public offering, at an offering price of \$10.20 per share before underwriting discounts and commissions. Net proceeds of the offering (after deducting underwriting discounts and offering expenses) included in shareholders' equity totaled \$66.4 million. In addition, as of January 31, 2008, 619,435 Units have been converted to common shares during fiscal year 2008, with a total value of \$4.3 million included in shareholders' equity, and approximately 6,152 common shares have been issued

under the Company's 401(k) plan, with a total value of \$59,303 included in shareholders' equity.

## NOTE 5 • SEGMENT REPORTING

IRET reports its results in five reportable segments: multi-family residential properties, and commercial office, medical (including senior housing), industrial and retail properties. Our reportable segments are aggregations of similar properties. The accounting policies of each of these segments are the same as those described in Note 2. We disclose segment information in accordance with SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Disclosures* ("SFAS 131"). SFAS 131 requires that segment disclosures present the measure(s) used by the chief operating decision maker for purposes of assessing segment performance.

The revenues and net operating income for these reportable segments are summarized as follows for the three month and nine month periods ended January 31, 2008 and 2007, 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.

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*(in thousands)*

| Three Months Ended<br>January 31, 2008   | Multi-Family<br>Residential | Commercial<br>Office | Commercial<br>Medical | Commercial<br>Industrial | Commercial-<br>Retail | Total     |
|--|-----------------------------|----------------------|-----------------------|--------------------------|-----------------------|-----------|
| Real estate revenue  | \$ 18,419                   | \$ 20,621            | \$ 8,879              | \$ 3,028                 | \$ 3,525              | \$ 54,472 |
| Real estate expenses   | 8,640                       | 8,853                | 2,259                 | 710                      | 1,131                 | 21,593    |
| Net operating income   | \$ 9,779                    | \$ 11,768            | \$ 6,620              | \$ 2,318                 | \$ 2,394              | 32,879    |
| Interest   |                             |                      |                       |                          |                       | (15,840)  |
| Depreciation/amortization  |                             |                      |                       |                          |                       | (12,521)  |
| Administrative, advisory and trustee fees  |                             |                      |                       |                          |                       | (1,348)   |
| Operating expenses   |                             |                      |                       |                          |                       | (343)     |
| Non-operating income   |                             |                      |                       |                          |                       | 1,023     |
| Income before minority interest and discontinued operations and (loss) gain on sale of other investments |                             |                      |                       |                          |                       | \$ 3,850  |

*(in thousands)*

| Three Months Ended<br>January 31, 2007   | Multi-Family<br>Residential | Commercial<br>Office | Commercial<br>Medical | Commercial<br>Industrial | Commercial-<br>Retail | Total     |
|--|-----------------------------|----------------------|-----------------------|--------------------------|-----------------------|-----------|
| Real estate revenue  | \$ 16,956                   | \$ 19,950            | \$ 8,729              | \$ 2,058                 | \$ 3,403              | \$ 51,096 |
| Real estate expenses   | 7,708                       | 7,940                | 2,009                 | 297                      | 1,104                 | 19,058    |
| Net operating income   | \$ 9,248                    | \$ 12,010            | \$ 6,720              | \$ 1,761                 | \$ 2,299              | 32,038    |
| Interest   |                             |                      |                       |                          |                       | (15,220)  |
| Depreciation/amortization  |                             |                      |                       |                          |                       | (11,979)  |
| Administrative, advisory and trustee fees  |                             |                      |                       |                          |                       | (1,237)   |
| Operating expenses   |                             |                      |                       |                          |                       | (319)     |
| Non-operating income   |                             |                      |                       |                          |                       | 1,008     |
| Income before minority interest and discontinued operations and (loss) gain on sale of other investments |                             |                      |                       |                          |                       | \$ 4,291  |

*(in thousands)*

| <b>Nine Months Ended January 31, 2008</b>  | <b>Multi-Family Residential</b> | <b>Commercial Office</b> | <b>Commercial Medical</b> | <b>Commercial Industrial</b> | <b>Commercial Retail</b> | <b>Total</b> |
|--|---------------------------------|--------------------------|---------------------------|------------------------------|--------------------------|--------------|
| Real estate revenue  | \$ 54,529                       | \$ 61,835                | \$ 26,764                 | \$ 8,718                     | \$ 10,542                | \$ 162,388   |
| Real estate expenses   | 25,655                          | 26,297                   | 6,575                     | 1,836                        | 3,220                    | 63,583       |
| Net operating income   | \$ 28,874                       | \$ 35,538                | \$ 20,189                 | \$ 6,882                     | \$ 7,322                 | 98,805       |
| Interest   |                                 |                          |                           |                              |                          | (46,969)     |
| Depreciation/amortization  |                                 |                          |                           |                              |                          | (37,586)     |
| Administrative, advisory and trustee fees  |                                 |                          |                           |                              |                          | (3,811)      |
| Operating expenses   |                                 |                          |                           |                              |                          | (1,053)      |
| Non-operating income   |                                 |                          |                           |                              |                          | 2,089        |
| Income before minority interest and discontinued operations and (loss) gain on sale of other investments |                                 |                          |                           |                              |                          | \$ 11,475    |

*(in thousands)*

| <b>Nine Months Ended January 31, 2007</b>  | <b>Multi-Family Residential</b> | <b>Commercial Office</b> | <b>Commercial Medical</b> | <b>Commercial Industrial</b> | <b>Commercial Retail</b> | <b>Total</b> |
|--|---------------------------------|--------------------------|---------------------------|------------------------------|--------------------------|--------------|
| Real estate revenue  | \$ 49,822                       | \$ 52,574                | \$ 25,817                 | \$ 5,637                     | \$ 10,227                | \$ 144,077   |
| Real estate expenses   | 23,055                          | 21,447                   | 6,296                     | 800                          | 3,209                    | 54,807       |
| Net operating income   | \$ 26,767                       | \$ 31,127                | \$ 19,521                 | \$ 4,837                     | \$ 7,018                 | 89,270       |
| Interest   |                                 |                          |                           |                              |                          | (43,126)     |
| Depreciation/amortization  |                                 |                          |                           |                              |                          | (33,383)     |
| Administrative, advisory and trustee fees  |                                 |                          |                           |                              |                          | (3,274)      |
| Operating expenses   |                                 |                          |                           |                              |                          | (933)        |
| Non-operating income   |                                 |                          |                           |                              |                          | 1,970        |
| Income before minority interest and discontinued operations and (loss) gain on sale of other investments |                                 |                          |                           |                              |                          | \$ 10,524    |

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**Table of Contents****Segment Assets and Accumulated Depreciation**

Segment assets are summarized as follows as of January 31, 2008, and April 30, 2007, along with reconciliations to the condensed consolidated financial statements:

*(in thousands)*

| <b>As of January 31, 2008</b>              | <b>Multi-Family Residential</b> | <b>Commercial Office</b> | <b>Commercial Medical</b> | <b>Commercial Industrial</b> | <b>Commercial Retail</b> | <b>Total</b> |
|--|---------------------------------|--------------------------|---------------------------|------------------------------|--------------------------|--------------|
| Segment Assets                             |                                 |                          |                           |                              |                          |              |
| Property owned                             | \$ 509,989                      | \$ 554,300               | \$ 279,966                | \$ 97,715                    | \$ 116,590               | \$ 1,558,560 |
| Less accumulated depreciation/amortization | (99,282)                        | (54,534)                 | (30,064)                  | (9,876)                      | (15,644)                 | (209,400)    |
| Total property owned                       | \$ 410,707                      | \$ 499,766               | \$ 249,902                | \$ 87,839                    | \$ 100,946               | 1,349,160    |
| Cash                                       |                                 |                          |                           |                              |                          | 76,392       |
| Marketable securities                      |                                 |                          |                           |                              |                          | 2,160        |
| Receivables and other assets               |                                 |                          |                           |                              |                          | 73,015       |
| Unimproved land                            |                                 |                          |                           |                              |                          | 18,635       |
| Mortgage receivables                       |                                 |                          |                           |                              |                          | 548          |

|              |             |
|--------------|-------------|
| Total Assets | \$1,519,910 |
|--------------|-------------|

(in thousands)

| As of April 30, 2007                       | Multi-Family Residential | Commercial-Office | Commercial-Medical | Commercial-Industrial | Commercial-Retail | Total       |
|--|--------------------------|-------------------|--------------------|-----------------------|-------------------|-------------|
| Segment Assets                             |                          |                   |                    |                       |                   |             |
| Property owned                             | \$ 489,644               | \$ 536,431        | \$ 274,779         | \$ 75,257             | \$ 113,176        | \$1,489,287 |
| Less accumulated depreciation/amortization | (89,541)                 | (44,204)          | (24,787)           | (8,257)               | (13,755)          | (180,544)   |
| Total property owned                       | \$ 400,103               | \$ 492,227        | \$ 249,992         | \$ 67,000             | \$ 99,421         | 1,308,743   |
| Cash                                       |                          |                   |                    |                       |                   | 44,516      |
| Marketable securities                      |                          |                   |                    |                       |                   | 2,048       |
| Receivables and other assets               |                          |                   |                    |                       |                   | 72,291      |
| Unimproved land                            |                          |                   |                    |                       |                   | 7,392       |
| Mortgage receivables                       |                          |                   |                    |                       |                   | 399         |
| Total Assets                               |                          |                   |                    |                       |                   | \$1,435,389 |

**NOTE 6 • COMMITMENTS AND CONTINGENCIES**

*Litigation.* IRET is involved in various lawsuits arising in the normal course of business. Management believes that such matters will not have a material effect on the Company's financial statements.

*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 Company 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 2% to 2.5% of the initial cost of the property to the Company. As of January 31, 2008, the total property cost of the 17 properties subject to purchase options was approximately \$128.7 million, and the total gross rental revenues from these properties were approximately \$3.2 million and \$9.7 million, respectively for the three and nine months ended January 31, 2008.

*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 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 significant costs to the Company.

*Restrictions on Taxable Dispositions.* Approximately 133 of IRET's properties, consisting of approximately 6.6 million square feet of the Company's combined commercial segments' properties and 4,104 apartment units, are subject to restrictions on taxable

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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 approximately \$790.6 million at January

31, 2008. 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.

*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. IRET has one joint venture which allows IRET's unaffiliated partner, at its election, to require that IRET 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. The Company is not aware of any intent of the partners to exercise these options.

*Development Projects.* The Company has certain funding commitments under contracts for property development and renovation projects. As of January 31, 2008, IRET's funding commitments include the following:

Southdale Medical Building Expansion Project: In July 2007, the Company signed a lease with an anchor tenant committing the Company to construct an approximately 26,000 square foot addition to the Company's existing Southdale Medical Building located in Edina, Minnesota. The estimated cost of this expansion project is approximately \$7.5 million, with an additional approximately \$2.0 million in relocation, tenant improvement and leasing costs expected to be incurred to relocate tenants in the existing facility. Construction began in September 2007, and the expansion project is scheduled for completion in July 2008. As of January 31, 2008, the Company has funded approximately \$3.0 million in construction costs for this expansion project.

IRET Corporate Plaza: During fiscal year 2007, the Company purchased an unimproved parcel of land in Minot, North Dakota for approximately \$1.8 million. The Company is constructing mixed-use project on this site, to consist of approximately 67 apartments and 60,100 rentable square feet of office and retail space. The Company currently plans to move its Minot, North Dakota offices to this location, occupying approximately one-third of the proposed office/retail space. Current estimates are that the project will be completed in the second quarter of the Company's fiscal year 2009, at a total cost of approximately \$17.8 million. As of January 31, 2008, the Company has funded approximately \$6.7 million of the estimated construction cost of this project.

2828 Chicago Avenue Medical Building: In fiscal year 2006, IRET purchased an approximately 55,000 square foot, five-story medical office building located in Minneapolis, Minnesota. During fiscal year 2007, IRET committed to construct an approximately 56,239 square foot medical office building adjacent to the existing structure, and an adjoining parking ramp, with a planned project completion date of August 2008 and an estimated total project cost of \$15.7 million. As of January 31, 2008, approximately 71% of this new medical office building was pre-leased to two tenants. Construction on the project began in August 2007, and as of January 31, 2008, the Company has paid approximately \$5.1 million in construction costs.

Construction interest capitalized for the three month periods ended January 31, 2008 and 2007, respectively, was \$108,771 and \$35,140 for construction projects completed and in progress. Construction interest capitalized for the nine month periods ended January 31, 2008 and 2007, respectively, was \$139,291 and \$52,913 for construction projects completed and in progress.

*Pending Acquisitions and Dispositions.* During the third quarter of fiscal year 2008, the Company signed a purchase agreement to acquire a one-story, approximately 199,000 sq. ft. office/warehouse located in Eagan, MN, for a total purchase price of \$6.4 million, payable in cash and UPREIT Units. This proposed acquisition, which is expected to close in the fourth quarter of the Company's current fiscal year, is subject to various closing conditions and

contingencies, and no assurances can be given that this transaction will be completed. Also during the third quarter of fiscal year 2008, the Company entered into an agreement to sell a multi-family residential property located in Devils Lake, North Dakota, for a sale price of approximately \$940,000. This disposition is subject to various closing conditions and contingencies, and no assurances can be given that this proposed sale will be completed.

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### NOTE 7 • DISCONTINUED OPERATIONS

SFAS No. 144, *Accounting for the Impairment or Disposal of Long Lived Assets*, requires the Company to report in discontinued operations the results of operations of a property that has either been disposed of or is classified as held for sale. It also requires that any gains or losses from the sale of a property be reported in discontinued operations. There were no properties classified as discontinued operations during the nine months ended January 31, 2008. The following information shows the effect on net income, net of minority interest, and the gains or losses from the sale of properties classified as discontinued operations.

|   | Three Months<br>Ended<br>January 31<br><i>(in thousands)</i><br>2007 | Nine Months<br>Ended<br>January 31<br><i>(in thousands)</i><br>2007 |
|---|--|---|
| <b>REVENUE</b>  |  |   |
| Real estate rentals   | \$ 311   | \$ 1,222  |
| Tenant reimbursements   | 14   | 49  |
| <b>TOTAL REVENUE</b>  | <b>325</b>   | <b>1,271</b>  |
| <b>OPERATING EXPENSE</b>  |  |   |
| Interest  | 79   | 346   |
| Depreciation/amortization related to real estate investments        | 50   | 231   |
| Utilities   | 45   | 117   |
| Maintenance   | 14   | 151   |
| Real estate taxes   | 37   | 149   |
| Insurance   | 8  | 25  |
| Property management expenses  | 31   | 114   |
| Administrative expenses   | 0  | 2   |
| Other operating expenses  | 0  | 9   |
| Loss on impairment of real estate                                   | 120  | 640   |
| <b>TOTAL OPERATING EXPENSE</b>                                      | <b>384</b>   | <b>1,784</b>  |
| Operating loss  | (59)   | (513)   |
| Other non-operating income  | 0  | 0   |
| Loss before minority interest and gain on sale of other investments | (59)   | (513)   |
| Minority interest portion of operating partnership income           | (85)   | (606)   |
| Gain on sale of discontinued operations                             | 349  | 3,022   |
| Discontinued operations, net of minority interest                   | \$ 205   | \$ 1,903  |

### NOTE 8 • ACQUISITIONS

#### Acquisitions During the Nine Months Ended January 31, 2008:

During the third quarter of fiscal year 2008, IRET acquired two commercial office properties and a multi-family residential complex for a total of approximately \$18.2 million, and completed construction of an apartment building for a cost of \$6.2 million. The Company had no material dispositions in the third quarter of fiscal year 2008.

During the second quarter of fiscal year 2008, IRET completed no property acquisitions.

During the first quarter of fiscal year 2008, the Company acquired four office/warehouse properties and a medical office building for a total purchase price of approximately \$27.2 million, excluding closing costs.

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The following table details the Company's acquisitions during the nine months ended January 31, 2008:

| <b>Acquisitions</b>   | <i>(in thousands)</i><br><b>Acquisition<br/>Cost</b> |
|---|--|
| <i>Multi-Family Residential</i>   |  |
| 96 unit Greenfield Apartments Omaha, NE                                       | \$ 4,700   |
| 67 unit Cottonwood Lake IV Bismarck, ND*                                      | 6,191  |
| <i>Commercial Property Office</i>   |  |
| 20,528 sq. ft. Plymouth 5095 Nathan Lane Office Building Plymouth, MN         | 2,000  |
| 78,560 sq. ft. 610 Business Center IV Brooklyn Park, MN                       | 6,500  |
| 64,607 sq. ft. Intertech Office Building Fenton, MO                           | 7,000  |
| <i>Commercial Property Medical (including senior housing/assisted living)</i> |  |
| 18,502 sq. ft. Barry Pointe Medical Building Kansas City, MO                  | 3,200  |
| <i>Commercial Property Industrial</i>   |  |
| 50,400 sq. ft. Cedar Lake Business Center St. Louis Park, MN                  | 4,040  |
| 528,353 sq. ft. Urbandale Warehouse Building Urbandale, IA                    | 14,000   |
| 69,600 sq. ft. Woodbury 1865 Woodlane Woodbury, MN                            | 4,000  |
| <b>Total Property Acquisitions</b>  | <b>\$ 51,631</b>                                     |

\* Development property placed in service January 2, 2008.

## **NOTE 9 • SUBSEQUENT EVENTS**

*Common and Preferred Share Distributions.* On February 20, 2008, the Company's Board of Trustees declared a regular quarterly distribution of 16.80 cents per share and unit on the Company's common shares of beneficial interest and limited partnership units of IRET Properties, payable April 1, 2008, to common shareholders and unitholders of record on March 14, 2008. Also on February 20, 2008, the Company's Board of Trustees declared a distribution of 51.56 cents per share on the Company's preferred shares of beneficial interest, payable March 31, 2008, to preferred shareholders of record on March 14, 2008.

*Completed Acquisitions.* Subsequent to the third quarter of fiscal year 2008, the Company closed on the following acquisitions:



**Senior Housing Portfolio:** In February 2008, the Company closed on its acquisition of three senior housing facilities with a total of 92 units/beds for an aggregate purchase price (excluding closing costs) of \$12.6 million. IRET acquired these facilities through its purchase, from Edgewood Vista Senior Living, Inc. (“Edgewood Vista”), a developer and operator of senior living communities with which IRET has had an existing landlord/tenant relationship, of three limited liability companies that own the facilities. In March 2008, IRET closed on the acquisition of an additional five senior housing facilities owned by Edgewood Vista with a total of 237 units/beds for an aggregate purchase price (excluding closing costs) of \$32.1 million. These eight facilities are located in Montana, Nebraska, Minnesota, North Dakota and South Dakota. IRET has leased the facilities to Sunwest Management, Inc. (“Sunwest”). Sunwest is acquiring the assets of Edgewood Vista. As part of the acquisition transactions summarized above, IRET also bought out certain options held by Edgewood Vista to purchase various senior housing facilities owned by IRET and leased by Edgewood Vista. IRET made a net payment of \$14.8 million to Edgewood Vista to extinguish purchase options on eleven of IRET’s senior housing facilities with a total of 741 units/beds, located in Bismarck, North Dakota; Spearfish, South Dakota; Brainerd, Minnesota; Hermantown, Minnesota (two facilities); Omaha, Nebraska; Fremont, Nebraska; Hastings, Nebraska; Kalispell, Montana; Missoula, Montana, and Virginia, Minnesota. IRET has leased these eleven facilities to Sunwest.

**Minnesota Medical Portfolio:** Also subsequent to the third quarter of fiscal year 2008, in March 2008, IRET closed on its acquisition of a portfolio of six medical office properties located in the greater Minneapolis, Minnesota metropolitan area. In regard to three of the six buildings, the Company acquired leasehold interests only. IRET paid \$6.9 million in cash for the portfolio, assumed existing financing totaling approximately \$17.8 million, placed new financing of \$21.9 million, and caused the issuance of approximately 567,000 limited partnership units of its operating partnership, IRET Properties, valued at \$9.45 per unit or approximately \$5.4 million in total, for a total aggregate consideration for the portfolio of \$52 million, excluding acquisition costs, and excluding costs totaling approximately \$1.7 million associated with the early prepayment of the debt encumbering four of the six locations. The portfolio was purchased from a group of local private investors who developed the properties. The properties acquired by IRET in this transaction are as follows:

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**6405 France Medical:** IRET acquired the sellers’ interest in a lease of air rights covering three floors of this five-story medical office building located in Edina, Minnesota. The three floors total approximately 55,478 rentable square feet (“rsf”). The remaining two floors are owned by the air rights lessor, Fairview Health Services. The air-rights lease has an original term of 50 years, of which 43 years are remaining, and provides for two options to extend, the first such extension for a term of 15 years (through November 31, 2066), and the second option for a term of 10 years (through November 30, 2076). At the end of the lease term, title to the improvements will revert to the lessor. The annual rent payment under the air rights lease is \$75,000 for the first 25 years. Annual rent is adjusted in the 26<sup>th</sup> year and each decade thereafter to the greater of \$100,000 or 10% of the fair market value of the air rights parcel. The lessor has fair market value purchase options commencing in December 2011 and every 10 years thereafter. The 6405 France Medical building is connected to Fairview Southdale Hospital.

**6363 France Medical:** a five-story, approximately 70,934 rsf medical office building in Edina, Minnesota, located adjacent to Fairview Southdale Hospital, and connected to the hospital by an underground tunnel. The property is subject to a ground lease terminating in February 2045. The current annual rent payment under the ground lease is \$42,500; the annual rent adjusts in the 11<sup>th</sup> year of the lease and at eight-year intervals thereafter, to an amount that is equal to 10% of the fair market value of the underlying land. Title to the improvements on the property reverts to the ground lessor (Fairview Hospital and Healthcare Services) at the end of the term.

**Riverside Medical:** a five-story, approximately 57,212 rsf medical office building located in Minneapolis, Minnesota. The property is subject to a ground lease terminating in October 2041. The ground lease provides for three options to

extend the term, the first such extension for 15 years, and the other two for 10 years each. Through October 2011, IRET will pay ground rent of \$25,000 per year. Beginning in November 2011 (the 21<sup>st</sup> year of the lease) IRET will owe annual ground rent of the greater of \$25,000 or 10% of the fair market value of the underlying land as determined by appraisal. The annual ground rent is to be re-determined using this method every subsequent eight years. The Riverside Medical building is located on the campus of Riverside Hospital and is connected to the main hospital buildings by an underground tunnel.

Ridgeview Medical: a three-story, approximately 53,466 rsf medical office building located on the Fairview Ridges Hospital campus in Burnsville, Minnesota. The building is connected to the main hospital.

Ridgeview South: a three-story, approximately 36,199 rsf medical office building located on the Fairview Ridges Hospital campus in Burnsville, Minnesota. The building is connected to the hospital.

1440 Duckwood Medical: a one-story, approximately 17,640 rsf off-campus medical office building located in Eagan, Minnesota.

*Pending Acquisition.* Subsequent to the third quarter of fiscal year 2008, IRET signed an agreement to acquire a two-building senior housing complex located in Minot, North Dakota, and constructed in 1995, consisting of two single-story facilities containing approximately 93,708 square feet and 9,693 square feet, respectively, with a combined total of 184 units/beds, for a purchase price of \$14.8 million. This acquisition is subject to various closing conditions and contingencies, and no assurances can be given that this transaction will be completed.

## **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, 2007, which are included in the Company's Annual Report on Form 10-K, filed with the Securities and Exchange Commission.

*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 real estate investment trust engaged in owning and operating income-producing real properties. Our investments include multi-family residential properties and office, industrial, medical and retail 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, 2008, our real estate portfolio consisted of 70 multi-family residential properties containing 9,548 apartment units and having a total carrying amount (net of accumulated depreciation and intangibles) of \$410.7 million, and 154 commercial properties

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containing approximately 10.8 million square feet of leasable space and having a total carrying amount (net of accumulated depreciation and intangibles) of \$938.5 million. Our commercial properties consist of:

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- 66 office properties containing approximately 4.9 million square feet of leasable space and having a total carrying amount (net of accumulated depreciation and intangibles) of \$499.8 million;
- 35 medical properties (including senior housing) containing approximately 1.7 million square feet of leasable space and having a total carrying amount (net of accumulated depreciation and intangibles) of \$249.9 million;
- 16 industrial properties containing approximately 2.7 million square feet of leasable space and having a total carrying amount (net of accumulated depreciation and intangibles) of \$87.8 million; and
- 37 retail properties containing approximately 1.5 million square feet of leasable space and having a total carrying amount (net of accumulated depreciation and intangibles) of \$101.0 million.

Our primary source of income and cash is rents associated with multi-family residential and commercial leases. Our business objective is to increase shareholder value by employing a disciplined investment strategy. This strategy is focused on growing assets in desired geographical markets, achieving diversification by property type and location, and adhering to targeted returns in acquiring properties. We intend to continue to achieve our business objective by investing in multi-family residential properties and in office, industrial, retail and medical commercial properties that are leased to single or multiple tenants, usually for five years or longer, and are located throughout the upper Midwest. We operate mainly within the states of North Dakota and Minnesota, although we also have real estate investments in South Dakota, Montana, Nebraska, Colorado, Idaho, Iowa, Kansas, Michigan, Missouri, Texas and Wisconsin.

We compete with other owners and developers of multi-family and commercial properties to attract tenants to our properties, and we compete with other real estate investors to acquire properties. Principal areas of competition for tenants are in respect of rents charged and the attractiveness of location and quality of our properties. Competition for investment properties affects our ability to acquire properties we want to add to our portfolio, and the price we pay for acquisitions.

*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 Annual Report on Form 10-K for the fiscal year ended April 30, 2007, in Management's Discussion and Analysis of Financial Condition and Results of Operations. There have been no significant changes to those policies during the third quarter of fiscal year 2008.

### **RECENT ACCOUNTING PRONOUNCEMENTS**

For disclosure regarding recent accounting pronouncements and the anticipated impact they will have on our operations, please refer to Note 2 to our condensed consolidated financial statements.

### **RESULTS OF OPERATIONS FOR THE THREE MONTHS AND NINE MONTHS ENDED JANUARY 31, 2008 AND 2007**

#### **REVENUES**

Total IRET revenues for the third quarter of fiscal year 2008 were \$54.5 million, compared to \$51.1 million recorded in the third quarter of the prior fiscal year. This is an increase of \$3.4 million or 6.7%. Revenues for the nine months ended January 31, 2008 were \$162.4 million compared to \$144.1 million in the nine months ended January 31, 2007. This is an increase of \$18.3 million or 12.7%. This increase in revenue resulted primarily from the additional investments in real estate made by IRET during fiscal years 2007 and 2008, as well as other factors shown by the following analysis:

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|  | <i>(in thousands)</i>  |   |
|--|--|---|
|  | <b>Increase in Total<br/>Revenue<br/>Three Months<br/>ended January 31,<br/>2008</b> | <b>Increase in Total<br/>Revenue<br/>Nine Months<br/>ended January 31,<br/>2008</b> |
| Rent in Fiscal 2008 from 21 properties acquired in Fiscal 2007 in excess of that received in Fiscal 2007 from the same 21 properties | \$ 1,379   | \$ 13,336   |
| Rent from 8 properties acquired in Fiscal 2008   | 1,004  | 2,119   |
| Increase in rental income on stabilized properties primarily due to a decrease in tenant concessions granted                         | 992  | 2,856   |
| Net increase in total revenue  | \$ 3,375   | \$ 18,311   |
| <b>NET OPERATING INCOME</b>  |  |   |

The following tables report segment financial information. We measure the performance of our segments based on net operating income (“NOI”), which we define as total revenues less property operating expenses and real estate taxes. 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.

The following tables show revenues, operating expenses and NOI by reportable operating segment for the three months and nine months ended January 31, 2008 and 2007. For a reconciliation of net operating income of reportable segments to income before minority interest and discontinued operations and (loss) gain on sale of other investments as reported, see Note 5 of the Notes to the condensed consolidated financial statements in this report.

The tables also show net operating income by reportable operating segment on a stabilized property and non-stabilized property (all property) basis. Stabilized properties are properties owned and in operation for the entirety of the periods being compared (including properties that were redeveloped or expanded during the periods being compared, with properties purchased or sold during the periods being compared excluded from the stabilized property category). 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 stabilized 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.

|  | <i>(in thousands)</i>           |                          |                           |                              |                          |              |
|--|---------------------------------|--------------------------|---------------------------|------------------------------|--------------------------|--------------|
| <b>Three Months Ended January 31, 2008</b> | <b>Multi-Family Residential</b> | <b>Commercial-Office</b> | <b>Commercial-Medical</b> | <b>Commercial-Industrial</b> | <b>Commercial-Retail</b> | <b>Total</b> |
| Real estate revenue                        | \$ 18,419                       | \$ 20,621                | \$ 8,879                  | \$ 3,028                     | \$ 3,525                 | \$ 54,472    |
| Real estate expenses                       |                                 |                          |                           |                              |                          |              |

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|                                     |          |           |          |          |          |           |
|-------------------------------------|----------|-----------|----------|----------|----------|-----------|
| Utilities                           | 1,836    | 1,711     | 487      | 53       | 105      | 4,192     |
| Maintenance                         | 2,309    | 2,700     | 687      | 190      | 302      | 6,188     |
| Real estate taxes                   | 1,931    | 3,247     | 671      | 333      | 567      | 6,749     |
| Insurance                           | 292      | 226       | 74       | 35       | 43       | 670       |
| Property management                 | 2,272    | 969       | 340      | 99       | 114      | 3,794     |
| Total expenses                      | \$ 8,640 | \$ 8,853  | \$ 2,259 | \$ 710   | \$ 1,131 | \$ 21,593 |
| Net operating income                | \$ 9,779 | \$ 11,768 | \$ 6,620 | \$ 2,318 | \$ 2,394 | \$ 32,879 |
| Stabilized net operating income     | \$ 9,007 | \$ 8,347  | \$ 6,382 | \$ 1,561 | \$ 2,341 | \$ 27,638 |
| Non-stabilized net operating income | 772      | 3,421     | 238      | 757      | 53       | 5,241     |
| Total net operating income          | \$ 9,779 | \$ 11,768 | \$ 6,620 | \$ 2,318 | \$ 2,394 | \$ 32,879 |

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*(in thousands)*

| <b>Three Months Ended January 31, 2007</b> | <b>Multi-Family Residential</b> | <b>Commercial-Office</b> | <b>Commercial-Medical</b> | <b>Commercial-Industrial</b> | <b>Commercial-Retail</b> | <b>Total</b> |
|--|---------------------------------|--------------------------|---------------------------|------------------------------|--------------------------|--------------|
| Real estate revenue                        | \$ 16,956                       | \$ 19,950                | \$ 8,729                  | \$ 2,058                     | \$ 3,403                 | \$ 51,096    |
| Real estate expenses                       |                                 |                          |                           |                              |                          |              |
| Utilities                                  | 1,846                           | 1,632                    | 387                       | 24                           | 114                      | 4,003        |
| Maintenance                                | 1,849                           | 2,299                    | 582                       | 23                           | 234                      | 4,987        |
| Real estate taxes                          | 1,906                           | 2,959                    | 543                       | 196                          | 543                      | 6,147        |
| Insurance                                  | 276                             | 209                      | 67                        | 20                           | 40                       | 612          |
| Property management                        | 1,831                           | 841                      | 430                       | 34                           | 173                      | 3,309        |
| Total expenses                             | \$ 7,708                        | \$ 7,940                 | \$ 2,009                  | \$ 297                       | \$ 1,104                 | \$ 19,058    |
| Net operating income                       | \$ 9,248                        | \$ 12,010                | \$ 6,720                  | \$ 1,761                     | \$ 2,299                 | \$ 32,038    |
| Stabilized net operating income            | \$ 8,882                        | \$ 8,450                 | \$ 6,638                  | \$ 1,603                     | \$ 2,193                 | \$ 27,766    |
| Non-stabilized net operating income        | 366                             | 3,560                    | 82                        | 158                          | 106                      | 4,272        |
| Total net operating income                 | \$ 9,248                        | \$ 12,010                | \$ 6,720                  | \$ 1,761                     | \$ 2,299                 | \$ 32,038    |

*(in thousands)*

| <b>Nine Months Ended January 31, 2008</b> | <b>Multi-Family Residential</b> | <b>Commercial-Office</b> | <b>Commercial-Medical</b> | <b>Commercial-Industrial</b> | <b>Commercial-Retail</b> | <b>Total</b> |
|---|---------------------------------|--------------------------|---------------------------|------------------------------|--------------------------|--------------|
| Real estate revenue                       | \$ 54,529                       | \$ 61,835                | \$ 26,764                 | \$ 8,718                     | \$ 10,542                | \$ 162,388   |
| Real estate expenses                      |                                 |                          |                           |                              |                          |              |
| Utilities                                 | 4,998                           | 5,600                    | 1,474                     | 103                          | 279                      | 12,454       |
| Maintenance                               | 7,329                           | 7,783                    | 1,873                     | 400                          | 840                      | 18,225       |
| Real estate taxes                         | 5,722                           | 9,392                    | 1,980                     | 972                          | 1,593                    | 19,659       |
| Insurance                                 | 871                             | 671                      | 160                       | 99                           | 127                      | 1,928        |
| Property management                       | 6,735                           | 2,851                    | 1,088                     | 262                          | 381                      | 11,317       |
| Total expenses                            | \$ 25,655                       | \$ 26,297                | \$ 6,575                  | \$ 1,836                     | \$ 3,220                 | \$ 63,583    |
| Net operating income                      | \$ 28,874                       | \$ 35,538                | \$ 20,189                 | \$ 6,882                     | \$ 7,322                 | \$ 98,805    |

|                                     |           |           |           |          |          |           |
|-------------------------------------|-----------|-----------|-----------|----------|----------|-----------|
| Stabilized net operating income     | \$ 26,769 | \$ 25,169 | \$ 19,509 | \$ 4,814 | \$ 7,081 | \$ 83,342 |
| Non-stabilized net operating income | 2,105     | 10,369    | 680       | 2,068    | 241      | 15,463    |
| Total net operating income          | \$ 28,874 | \$ 35,538 | \$ 20,189 | \$ 6,882 | \$ 7,322 | \$ 98,805 |

(in thousands)

| Nine Months Ended January 31, 2007  | Multi-Family Residential | Commercial-Office | Commercial-Medical | Commercial-Industrial | Commercial-Retail | Total      |
|-------------------------------------|--------------------------|-------------------|--------------------|-----------------------|-------------------|------------|
| Real estate revenue                 | \$ 49,822                | \$ 52,574         | \$ 25,817          | \$ 5,637              | \$ 10,227         | \$ 144,077 |
| Real estate expenses                |                          |                   |                    |                       |                   |            |
| Utilities                           | 4,570                    | 4,418             | 1,303              | 48                    | 295               | 10,634     |
| Maintenance                         | 6,521                    | 6,276             | 1,835              | 113                   | 679               | 15,424     |
| Real estate taxes                   | 5,447                    | 7,770             | 1,683              | 491                   | 1,568             | 16,959     |
| Insurance                           | 823                      | 555               | 204                | 55                    | 124               | 1,761      |
| Property management                 | 5,694                    | 2,428             | 1,271              | 93                    | 543               | 10,029     |
| Total expenses                      | \$ 23,055                | \$ 21,447         | \$ 6,296           | \$ 800                | \$ 3,209          | \$ 54,807  |
| Net operating income                | \$ 26,767                | \$ 31,127         | \$ 19,521          | \$ 4,837              | \$ 7,018          | \$ 89,270  |
| Stabilized net operating income     | \$ 26,124                | \$ 25,857         | \$ 19,353          | \$ 4,680              | \$ 6,779          | \$ 82,793  |
| Non-stabilized net operating income | 643                      | 5,270             | 168                | 157                   | 239               | 6,477      |
| Total net operating income          | \$ 26,767                | \$ 31,127         | \$ 19,521          | \$ 4,837              | \$ 7,018          | \$ 89,270  |

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### FACTORS IMPACTING NET OPERATING INCOME

Real estate revenue increased in the three months and nine months ended January 31, 2008 compared to the year-earlier periods in all of our reportable segments, despite declines in economic occupancy rates in three of our five segments during the three months ended January 31, 2008 and in two of our five segments during the nine months ended January 31, 2008 compared to the three months and nine months ended January 31, 2007. Our overall level of tenant concessions declined in the first three months and nine months of fiscal year 2008 compared to the year-earlier periods. Revenue increases in the first three and nine months of fiscal year 2008 compared to the first three and nine months of fiscal year 2007 were offset somewhat by increases in utility, maintenance, real estate tax, insurance and property management expense.

- **Economic Occupancy.** During the three months ended January 31, 2008, economic occupancy levels at our stabilized properties declined from year-earlier levels in three of our five reportable segments. During the nine months ended January 31, 2008, economic occupancy levels at our stabilized properties declined in two of our five segments, compared to year-earlier levels. Economic occupancy represents actual rental revenues recognized for the period indicated as a percentage of scheduled rental revenues for the period. Percentage rents, tenant concessions, straightline adjustments and expense reimbursements are not considered in computing either actual revenues or scheduled rent revenues. Economic occupancy rates on a stabilized property and all property basis for the third quarter and first nine months of fiscal year 2008, compared to the third quarter and first nine months of fiscal year 2007, are shown below:

|                          | <b>Stabilized Properties</b> |             | <b>All Properties</b>     |             |
|--------------------------|------------------------------|-------------|---------------------------|-------------|
|                          | <b>Three Months Ended</b>    |             | <b>Three Months Ended</b> |             |
|                          | <b>January 31,</b>           |             | <b>January 31,</b>        |             |
|                          | <b>2008</b>                  | <b>2007</b> | <b>2008</b>               | <b>2007</b> |
| Multi-Family Residential | 93.7%                        | 93.2%       | 93.1%                     | 93.2%       |
| Commercial Office        | 90.8%                        | 90.3%       | 91.3%                     | 92.3%       |
| Commercial Medical       | 95.2%                        | 96.8%       | 95.4%                     | 96.9%       |
| Commercial Industrial    | 93.9%                        | 96.4%       | 94.3%                     | 96.6%       |
| Commercial Retail        | 87.1%                        | 89.4%       | 87.4%                     | 89.7%       |

|                          | <b>Stabilized Properties</b> |             | <b>All Properties</b>    |             |
|--------------------------|------------------------------|-------------|--------------------------|-------------|
|                          | <b>Nine Months Ended</b>     |             | <b>Nine Months Ended</b> |             |
|                          | <b>January 31,</b>           |             | <b>January 31,</b>       |             |
|                          | <b>2008</b>                  | <b>2007</b> | <b>2008</b>              | <b>2007</b> |
| Multi-Family Residential | 93.5%                        | 93.5%       | 92.9%                    | 93.5%       |
| Commercial Office        | 91.5%                        | 90.9%       | 92.5%                    | 91.8%       |
| Commercial Medical       | 95.5%                        | 96.8%       | 95.7%                    | 96.9%       |
| Commercial Industrial    | 96.7%                        | 93.9%       | 96.5%                    | 94.1%       |
| Commercial Retail        | 86.8%                        | 89.3%       | 87.1%                    | 89.6%       |

During the third quarter of fiscal year 2008, continuing turmoil in the United States financial markets, primarily in response to the sub-prime mortgage market decline, have caused disruptions in the broader United States economy and capital markets. As this economic uncertainty has increased, we have observed a pause in demand for new or expansion space across our entire commercial portfolio, except medical office buildings where demand continues to be strong. Lease renewals by existing commercial tenants, however, appear to be stable at net rental rates and terms approximately equal to existing rates and terms. We have yet to experience any significant increase in past due rent or defaults by our existing commercial tenants due to the current economic climate. Assuming no material deterioration in the economy, based on current conditions we currently expect that we will see overall stable to slightly decreased occupancy levels and rental rates in our office, retail and industrial segments during the remainder of fiscal year 2008 and continuing into fiscal year 2009. We consider the prospects for our medical office segment to be strong in terms of both occupancy levels and rental rates, and we also currently expect to see continued improvement in our multi-family residential segment, provided that we succeed in our effort to control expenses, which accelerated during the third quarter of fiscal year 2008.

• **Concessions.** Our overall level of tenant concessions declined in the three months and nine months ended January 31, 2008 compared to the year-earlier periods. To maintain or increase physical occupancy levels at our properties, we may offer tenant incentives, generally in the form of lower or abated rents, which results in decreased revenues and income from operations at our properties. Rent concessions offered during the three months ended January 31, 2008 will lower, over the lives of the respective leases, our operating revenues by approximately \$549,000, as compared to an approximately \$1.0 million reduction, over the lives of the respective leases, in operating revenues attributable to rent concessions offered in the three months ended January 31, 2007. Rent concessions offered during the nine months ended

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January 31, 2008 will lower, over the lives of the respective leases, our operating revenues by approximately \$2.3 million, as compared to an approximately \$4.0 million reduction, over the lives of the respective leases, in operating revenues attributable to rent concessions offered in the nine months ended January 31, 2007:

*(in thousands)*

|                          | <b>Three Months Ended January 31,</b> |             |                 |
|--------------------------|---------------------------------------|-------------|-----------------|
|                          | <b>2008</b>                           | <b>2007</b> | <b>% Change</b> |
| Multi-Family Residential | \$ 475                                | \$ 714      | (33.5%)         |
| Commercial Office        | \$ 66                                 | \$ 306      | (78.4%)         |
| Commercial Medical       | \$ 0                                  | \$ 8        | 0%              |
| Commercial Industrial    | \$ 0                                  | \$ 5        | 0%              |
| Commercial Retail        | \$ 8                                  | \$ 7        | 14.3%           |
| Total                    | \$ 549                                | \$ 1,040    | (47.2%)         |

*(in thousands)*

|                          | <b>Nine Months Ended January 31,</b> |             |                 |
|--------------------------|--------------------------------------|-------------|-----------------|
|                          | <b>2008</b>                          | <b>2007</b> | <b>% Change</b> |
| Multi-Family Residential | \$ 1,771                             | \$ 2,465    | (28.2%)         |
| Commercial Office        | \$ 508                               | \$ 1,468    | (65.4%)         |
| Commercial Medical       | \$ 4                                 | \$ 66       | (93.9%)         |
| Commercial Industrial    | \$ 0                                 | \$ 5        | 0%              |
| Commercial Retail        | \$ 17                                | \$ 21       | (19.0%)         |
| Total                    | \$ 2,300                             | \$ 4,025    | (42.9%)         |

• **Increased Maintenance Expense.** Maintenance expenses totaled \$6.2 million and \$18.2 million, respectively, for the three and nine months ended January 31, 2008, compared to \$5.0 million and \$15.4 million for the three and nine months ended January 31, 2007. Maintenance expenses at properties newly acquired in fiscal years 2008 and 2007 added \$418,000 to the maintenance expenses category, while maintenance expenses at existing (“stabilized”) properties increased by \$783,000, resulting in an increase in maintenance expenses of \$1.2 million, or 24.1% for the three months ended January 31, 2008, compared to the corresponding period in fiscal year 2007. For the nine months ended January 31, 2008, maintenance costs at properties newly acquired in fiscal years 2008 and 2007 added \$1.9 million to the maintenance expenses category, and maintenance expenses at stabilized properties increased by \$860,000, resulting in an increase of \$2.8 million, or 18.2%, in maintenance costs, compared to the nine months ended January 31, 2007. The increase in maintenance costs at our stabilized properties is due primarily to the large snowfall experienced by certain IRET markets resulting in increased snow removal costs.

Maintenance expenses by reportable segment for the three months and nine months ended January 31, 2008 and 2007 are as follows:

*(in thousands)*

| <b>Three Months Ended<br/>January 31,</b> | <b>Multi-Family<br/>Residential</b> | <b>Commercial<br/>Office</b> | <b>Commercial<br/>Medical</b> | <b>Commercial<br/>Industrial</b> | <b>Commercial<br/>Retail</b> | <b>Total</b> |
|---|-------------------------------------|------------------------------|-------------------------------|----------------------------------|------------------------------|--------------|
| 2008                                      | \$ 2,309                            | \$ 2,700                     | \$ 687                        | \$ 190                           | \$ 302                       | \$ 6,188     |
| 2007                                      | \$ 1,849                            | \$ 2,299                     | \$ 582                        | \$ 23                            | \$ 234                       | \$ 4,987     |
| Change                                    | 460                                 | 401                          | 105                           | 167                              | 68                           | 1,201        |
| % change                                  | 24.9%                               | 17.4%                        | 18.0%                         | 726.1%                           | 29.1%                        | 24.1%        |
| Stabilized                                | \$ 374                              | \$ 212                       | \$ 72                         | \$ 58                            | \$ 67                        | \$ 783       |
| Non-stabilized                            | \$ 86                               | \$ 189                       | \$ 33                         | \$ 109                           | \$ 1                         | \$ 418       |
| Change                                    | 460                                 | 401                          | 105                           | 167                              | 68                           | 1,201        |



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*(in thousands)*

| Nine Months Ended<br>January 31, | Multi-Family<br>Residential | Commercial<br>Office | Commercial<br>Medical | Commercial<br>Industrial | Commercial<br>Retail | Total     |
|----------------------------------|-----------------------------|----------------------|-----------------------|--------------------------|----------------------|-----------|
| 2008                             | \$ 7,329                    | \$ 7,783             | \$ 1,873              | \$ 400                   | \$ 840               | \$ 18,225 |
| 2007                             | \$ 6,521                    | \$ 6,276             | \$ 1,835              | \$ 113                   | \$ 679               | \$ 15,424 |
| Change                           | 808                         | 1,507                | 38                    | 287                      | 161                  | 2,801     |
| % change                         | 12.4%                       | 24.0%                | 2.1%                  | 254.0%                   | 23.7%                | 18.2%     |
| Stabilized                       | \$ 390                      | \$ 318               | \$ (49)               | \$ 46                    | \$ 155               | \$ 860    |
| Non-stabilized                   | \$ 418                      | \$ 1,189             | \$ 87                 | \$ 241                   | \$ 6                 | \$ 1,941  |
| Change                           | 808                         | 1,507                | 38                    | 287                      | 161                  | 2,801     |

• **Increased Utility Expense.** Utility expense totaled \$4.2 million and \$12.5 million, respectively, for the three and nine months ended January 31, 2008, compared to \$4.0 million and \$10.6 million for the three and nine months ended January 31, 2007. Utility expenses at properties newly acquired in fiscal years 2008 and 2007 added \$250,000 to the utility expenses category, while utility expenses at existing properties decreased by \$61,000, resulting in a net increase of \$189,000 or 4.7% for the three months ended January 31, 2008, compared to the corresponding period in fiscal year 2007. For the nine months ended January 31, 2008, utility expenses at properties newly acquired added \$1.2 million to the utility expenses category, while utility expenses at existing properties increased by \$583,000, resulting in an increase in utility expenses of \$1.8 million or 17.1%, in utility expenses, compared to the nine months ended January 31, 2007. The increases in utility costs at our stabilized properties are due primarily to unusually warm weather in certain of IRET's markets, resulting in increased cooling costs.

Utility expenses by reportable segment for the three months and nine months ended January 31, 2008 and 2007 are as follows:

*(in thousands)*

| Three Months Ended<br>January 31, | Multi-Family<br>Residential | Commercial<br>Office | Commercial<br>Medical | Commercial<br>Industrial | Commercial<br>Retail | Total    |
|-----------------------------------|-----------------------------|----------------------|-----------------------|--------------------------|----------------------|----------|
| 2008                              | \$ 1,836                    | \$ 1,711             | \$ 487                | \$ 53                    | \$ 105               | \$ 4,192 |
| 2007                              | \$ 1,846                    | \$ 1,632             | \$ 387                | \$ 24                    | \$ 114               | \$ 4,003 |
| Change                            | (10)                        | 79                   | 100                   | 29                       | (9)                  | 189      |
| % change                          | (0.5%)                      | 4.8%                 | 25.8%                 | 120.8%                   | (7.9%)               | 4.7%     |
| Stabilized                        | \$ (102)                    | \$ (14)              | \$ 72                 | \$ (9)                   | \$ (8)               | \$ (61)  |
| Non-stabilized                    | \$ 92                       | \$ 93                | \$ 28                 | \$ 38                    | \$ (1)               | \$ 250   |
| Change                            | (10)                        | 79                   | 100                   | 29                       | (9)                  | 189      |

*(in thousands)*

| Nine Months Ended<br>January 31, | Multi-Family<br>Residential | Commercial<br>Office | Commercial<br>Medical | Commercial<br>Industrial | Commercial<br>Retail | Total     |
|----------------------------------|-----------------------------|----------------------|-----------------------|--------------------------|----------------------|-----------|
| 2008                             | \$ 4,998                    | \$ 5,600             | \$ 1,474              | \$ 103                   | \$ 279               | \$ 12,454 |
| 2007                             | \$ 4,570                    | \$ 4,418             | \$ 1,303              | \$ 48                    | \$ 295               | \$ 10,634 |
| Change                           | 428                         | 1,182                | 171                   | 55                       | (16)                 | 1,820     |
| % change                         | 9.4%                        | 26.8%                | 13.1%                 | 114.6%                   | (5.4%)               | 17.1%     |

|                |        |        |        |        |         |          |
|----------------|--------|--------|--------|--------|---------|----------|
| Stabilized     | \$ 122 | \$ 374 | \$ 108 | \$ (5) | \$ (16) | \$ 583   |
| Non-stabilized | \$ 306 | \$ 808 | \$ 63  | \$ 60  | \$ 0    | \$ 1,237 |
| Change         | 428    | 1,182  | 171    | 55     | (16)    | 1,820    |

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• **Increased Real Estate Tax Expense.** Real estate taxes on properties newly acquired in fiscal years 2008 and 2007 added \$466,000 and \$2.2 million, respectively, to real estate tax expense in the three months and nine months ended January 31, 2008, compared to the year-earlier periods. Real estate taxes on existing (stabilized) properties increased by \$136,000 and \$541,000, respectively, for total increases of \$602,000 and \$2.7 million, or 9.8% and 15.9%, compared to the year-earlier periods.

*(in thousands)*

| Three Months Ended<br>January 31, | Multi-Family<br>Residential | Commercial<br>Office | Commercial<br>Medical | Commercial<br>Industrial | Commercial<br>Retail | Total    |
|-----------------------------------|-----------------------------|----------------------|-----------------------|--------------------------|----------------------|----------|
| 2008                              | \$ 1,931                    | \$ 3,247             | \$ 671                | \$ 333                   | \$ 567               | \$ 6,749 |
| 2007                              | \$ 1,906                    | \$ 2,959             | \$ 543                | \$ 196                   | \$ 543               | \$ 6,147 |
| Change                            | 25                          | 288                  | 128                   | 137                      | 24                   | 602      |
| % change                          | 1.3%                        | 9.7%                 | 23.6%                 | 69.9%                    | 4.4%                 | 9.8%     |
| Stabilized                        | \$ (67)                     | \$ 114               | \$ 95                 | \$ 23                    | \$ (29)              | \$ 136   |
| Non-stabilized                    | \$ 92                       | \$ 174               | \$ 33                 | \$ 114                   | \$ 53                | \$ 466   |
| Change                            | 25                          | 288                  | 128                   | 137                      | 24                   | 602      |

*(in thousands)*

| Nine Months Ended<br>January 31, | Multi-Family<br>Residential | Commercial<br>Office | Commercial<br>Medical | Commercial<br>Industrial | Commercial<br>Retail | Total     |
|----------------------------------|-----------------------------|----------------------|-----------------------|--------------------------|----------------------|-----------|
| 2008                             | \$ 5,722                    | \$ 9,392             | \$ 1,980              | \$ 972                   | \$ 1,593             | \$ 19,659 |
| 2007                             | \$ 5,447                    | \$ 7,770             | \$ 1,683              | \$ 491                   | \$ 1,568             | \$ 16,959 |
| Change                           | 275                         | 1,622                | 297                   | 481                      | 25                   | 2,700     |
| % change                         | 5.0%                        | 20.9%                | 17.6%                 | 98.0%                    | 1.6%                 | 15.9%     |
| Stabilized                       | \$ (75)                     | \$ 307               | \$ 230                | \$ 106                   | \$ (27)              | \$ 541    |
| Non-stabilized                   | \$ 350                      | \$ 1,315             | \$ 67                 | \$ 375                   | \$ 52                | \$ 2,159  |
| Change                           | 275                         | 1,622                | 297                   | 481                      | 25                   | 2,700     |

• **Increased Insurance Expense.** Insurance expense totaled \$670,000 and \$1.9 million, respectively, for the three and nine months ended January 31, 2008, compared to \$612,000 and \$1.8 million for the three and nine months ended January 31, 2007. Insurance expenses at properties newly acquired in fiscal years 2008 and 2007 added \$39,000 to the insurance expense category, while insurance expense at existing properties increased by \$19,000, resulting in an increase in insurance expenses of \$58,000 in the three months ended January 31, 2008, a 9.5% increase over insurance expenses in the three months ended January 31, 2007. For the nine months ended January 31, 2008, insurance expenses at properties newly acquired in fiscal years 2008 and 2007 added \$200,000 to the insurance expenses category, while insurance expenses at existing properties decreased by \$33,000, resulting in a net increase of \$167,000 in insurance expenses, a 9.5% increase over insurance expenses in the nine months ended January 31, 2007.

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Insurance expense by reportable segment for the three months and nine months ended January 31, 2008 and 2007 is as follows:

| <i>(in thousands)</i>             |                             |                      |                       |                          |                      |        |  |
|-----------------------------------|-----------------------------|----------------------|-----------------------|--------------------------|----------------------|--------|--|
| Three Months Ended<br>January 31, | Multi-Family<br>Residential | Commercial<br>Office | Commercial<br>Medical | Commercial<br>Industrial | Commercial<br>Retail | Total  |  |
| 2008                              | \$ 292                      | \$ 226               | \$ 74                 | \$ 35                    | \$ 43                | \$ 670 |  |
| 2007                              | \$ 276                      | \$ 209               | \$ 67                 | \$ 20                    | \$ 40                | \$ 612 |  |
| Change                            | 16                          | 17                   | 7                     | 15                       | 3                    | 58     |  |
| % change                          | 5.8%                        | 8.1%                 | 10.4%                 | 75.0%                    | 7.5%                 | 9.5%   |  |
| Stabilized                        | \$ 1                        | \$ 12                | \$ 6                  | \$ (1)                   | \$ 1                 | \$ 19  |  |
| Non-stabilized                    | \$ 15                       | \$ 5                 | \$ 1                  | \$ 16                    | \$ 2                 | \$ 39  |  |
| Change                            | 16                          | 17                   | 7                     | 15                       | 3                    | 58     |  |

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| <i>(in thousands)</i>            |                             |                      |                       |                          |                      |          |  |
|----------------------------------|-----------------------------|----------------------|-----------------------|--------------------------|----------------------|----------|--|
| Nine Months Ended<br>January 31, | Multi-Family<br>Residential | Commercial<br>Office | Commercial<br>Medical | Commercial<br>Industrial | Commercial<br>Retail | Total    |  |
| 2008                             | \$ 871                      | \$ 671               | \$ 160                | \$ 99                    | \$ 127               | \$ 1,928 |  |
| 2007                             | \$ 823                      | \$ 555               | \$ 204                | \$ 55                    | \$ 124               | \$ 1,761 |  |
| Change                           | 48                          | 116                  | (44)                  | 44                       | 3                    | 167      |  |
| % change                         | 5.8%                        | 20.9%                | (21.6%)               | 80.0%                    | 2.4%                 | 9.5%     |  |
| Stabilized                       | \$ (6)                      | \$ 26                | \$ (50)               | \$ (4)                   | \$ 1                 | \$ (33)  |  |
| Non-stabilized                   | \$ 54                       | \$ 90                | \$ 6                  | \$ 48                    | \$ 2                 | \$ 200   |  |
| Change                           | 48                          | 116                  | (44)                  | 44                       | 3                    | 167      |  |

• **Increased Property Management Expense.** Property management expense totaled \$3.8 million and \$11.3 million, respectively, for the three and nine months ended January 31, 2008, compared to \$3.3 million and \$10.0 million for the three and nine months ended January 31, 2007. Property management expenses at properties newly acquired in fiscal years 2008 and 2007 added \$241,000 and \$930,000, respectively, to the property management expenses category in the three and nine months ended January 31, 2008. Property management expenses increased by \$244,000 and \$358,000, respectively, at existing properties for the three and nine months ended January 31, 2008 compared to the three and nine months ended January 31, 2007. The increase is primarily due to an increase in the provision for bad debts at residential properties.

Property management expense by reportable segment for the three months and nine months ended January 31, 2008 and 2007 is as follows:

| <i>(in thousands)</i>             |                             |                      |                       |                          |                      |          |  |
|-----------------------------------|-----------------------------|----------------------|-----------------------|--------------------------|----------------------|----------|--|
| Three Months Ended<br>January 31, | Multi-Family<br>Residential | Commercial<br>Office | Commercial<br>Medical | Commercial<br>Industrial | Commercial<br>Retail | Total    |  |
| 2008                              | \$ 2,272                    | \$ 969               | \$ 340                | \$ 99                    | \$ 114               | \$ 3,794 |  |
| 2007                              | \$ 1,831                    | \$ 841               | \$ 430                | \$ 34                    | \$ 173               | \$ 3,309 |  |
| Change                            | 441                         | 128                  | (90)                  | 65                       | (59)                 | 485      |  |

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|                |    |       |       |         |        |         |        |
|----------------|----|-------|-------|---------|--------|---------|--------|
| % change       |    | 24.1% | 15.2% | (20.9%) | 191.2% | (34.1%) | 14.7%  |
| Stabilized     | \$ | 324   | \$ 54 | \$ (99) | \$ 30  | \$ (65) | \$ 244 |
| Non-stabilized | \$ | 117   | \$ 74 | \$ 9    | \$ 35  | \$ 6    | \$ 241 |
| Change         |    | 441   | 128   | (90)    | 65     | (59)    | 485    |

(in thousands)

| Nine Months Ended<br>January 31, | Multi-Family<br>Residential | Commercial<br>Office | Commercial<br>Medical | Commercial<br>Industrial | Commercial<br>Retail | Total     |
|----------------------------------|-----------------------------|----------------------|-----------------------|--------------------------|----------------------|-----------|
| 2008                             | \$ 6,735                    | \$ 2,851             | \$ 1,088              | \$ 262                   | \$ 381               | \$ 11,317 |
| 2007                             | \$ 5,694                    | \$ 2,428             | \$ 1,271              | \$ 93                    | \$ 543               | \$ 10,029 |
| Change                           | 1,041                       | 423                  | (183)                 | 169                      | (162)                | 1,288     |
| % change                         | 18.3%                       | 17.4%                | (14.4%)               | 181.7%                   | (29.8%)              | 12.8%     |
| Stabilized                       | \$ 605                      | \$ 53                | \$ (208)              | \$ 85                    | \$ (177)             | \$ 358    |
| Non-stabilized                   | \$ 436                      | \$ 370               | \$ 25                 | \$ 84                    | \$ 15                | \$ 930    |
| Change                           | 1,041                       | 423                  | (183)                 | 169                      | (162)                | 1,288     |

**FACTORS IMPACTING NET INCOME**

Although revenue and net operating income increased during the third quarter of fiscal year 2008 compared to the third quarter of fiscal year 2007, net income available to common shareholders decreased by approximately \$471,000 and \$1.3 million to \$2.4 million and \$7.0 million, respectively, for the three months and nine months ended January 31, 2008, compared to \$2.9 million and \$8.3 million for the three months and nine months ended January 31, 2007. The decrease in net income is due in part to the effect of a gain on sale included within discontinued operations in the three and nine months ended January 31, 2007. Additionally, the increases in property operating expenses and real estate taxes discussed above, as well as the following factors, also impacted net income in the third quarter of fiscal year 2008:

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- **Increased Mortgage Interest Expense.** Mortgage interest expense increased approximately \$617,000, or 4.1%, to approximately \$15.6 million during the third quarter of fiscal year 2008, compared to \$15.0 million in the third quarter of fiscal year 2007, due to properties newly acquired in fiscal years 2008 and 2007. Mortgage interest expense increased approximately \$4.7 million or 11.4% to approximately \$46.3 million during the nine months ended for fiscal year 2008, compared to \$41.5 million in the same period fiscal 2007. Our overall weighted average interest rate on all outstanding mortgage debt was 6.44% as of January 31, 2008, compared to 6.45% as of January 31, 2007. Our mortgage debt increased approximately \$24.6 million, or 2.6%, to approximately \$975.8 million as of January 31, 2008, compared to \$951.1 million on April 30, 2007.

Mortgage interest expense by reportable segment for the three months and nine months ended January 31, 2008 and 2007 is as follows:

| Three Months Ended<br>January 31, | Multi-Family<br>Residential | Commercial<br>Office | Commercial<br>Medical | Commercial<br>Industrial | Commercial<br>Retail | Total     |
|-----------------------------------|-----------------------------|----------------------|-----------------------|--------------------------|----------------------|-----------|
| 2008                              | \$ 4,923                    | \$ 5,823             | \$ 2,900              | \$ 925                   | \$ 1,057             | \$ 15,628 |
| 2007                              | \$ 4,861                    | \$ 5,697             | \$ 2,853              | \$ 557                   | \$ 1,043             | \$ 15,011 |
| Change                            | 62                          | 126                  | 47                    | 368                      | 14                   | 617       |

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|                |    |      |         |       |         |       |          |
|----------------|----|------|---------|-------|---------|-------|----------|
| % change       |    | 1.3% | 2.2%    | 1.6%  | 66.1%   | 1.3%  | 4.1%     |
| Stabilized     | \$ | (57) | \$ (46) | \$ 8  | \$ (20) | \$ 14 | \$ (101) |
| Non-stabilized | \$ | 119  | \$ 172  | \$ 39 | \$ 388  | \$ 0  | \$ 718   |
| Change         |    | 62   | 126     | 47    | 368     | 14    | 617      |

(in thousands)

| Nine Months Ended<br>January 31, | Multi-Family<br>Residential | Commercial<br>Office | Commercial<br>Medical | Commercial<br>Industrial | Commercial<br>Retail | Commercial<br>Total |
|----------------------------------|-----------------------------|----------------------|-----------------------|--------------------------|----------------------|---------------------|
| 2008                             | \$ 14,702                   | \$ 17,331            | \$ 8,546              | \$ 2,566                 | \$ 3,113             | \$ 46,258           |
| 2007                             | \$ 13,891                   | \$ 14,440            | \$ 8,474              | \$ 1,676                 | \$ 3,053             | \$ 41,534           |
| Change                           | 811                         | 2,891                | 72                    | 890                      | 60                   | 4,724               |
| % change                         | 5.8%                        | 20.0%                | 0.8%                  | 53.1%                    | 2.0%                 | 11.4%               |
| Stabilized                       | \$ 136                      | \$ (168)             | \$ (124)              | \$ (50)                  | \$ (15)              | \$ (221)            |
| Non-stabilized                   | \$ 675                      | \$ 3,059             | \$ 196                | \$ 940                   | \$ 75                | \$ 4,945            |
| Change                           | 811                         | 2,891                | 72                    | 890                      | 60                   | 4,724               |

• **Increased Amortization Expense.** In accordance with SFAS No. 141, *Business Combinations*, which establishes standards for valuing in-place leases in purchase transactions, the Company allocates a portion of the purchase price paid for properties to in-place lease intangible assets. The amortization period of these intangible assets is the term of the lease, rather than the estimated life of the buildings and improvements. The Company accordingly initially records additional amortization expense due to this shorter amortization period, which has the effect in the short term of decreasing the Company's net income available to common shareholders, as computed in accordance with GAAP. Amortization expense related to in-place leases totaled \$2.3 million in the third quarter of fiscal year 2008, compared to \$2.6 million in the third quarter of fiscal year 2007, and \$7.3 million for the nine months fiscal 2008, compared to \$6.8 million for the nine months ended fiscal 2007.

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### CREDIT RISK

The following table lists our top ten commercial tenants on January 31, 2008, for all commercial properties owned by us. No single tenant accounted for more than 10% of revenues from commercial properties during the third quarter of fiscal year 2008.

| Lessee                             | % of Total<br>Commercial<br>Segments' Minimum<br>Rents<br>as of January 31,<br>2008 |
|------------------------------------|---|
| Edgewood Vista Senior Living, Inc. | 6.3%  |
| St. Lukes Hospital of Duluth, Inc. | 4.0%  |
| Applied Underwriters               | 2.5%  |
| Best Buy Co., Inc. (NYSE: BBY)     | 2.3%  |
| UGS Corp.                          | 1.9%  |
| HealthEast Care System             | 1.9%  |
| Microsoft (Nasdaq: MSFT)           | 1.7%  |

|   |        |
|---|--------|
| Smurfit - Stone Container (Nasdaq: SCCC)  | 1.7%   |
| Allina Health System                      | 1.6%   |
| Nebraska Orthopedic Hospital              | 1.5%   |
| All Others                                | 74.6%  |
| Total Monthly Rent as of January 31, 2008 | 100.0% |

## PROPERTY ACQUISITIONS

### Acquisitions During the Nine Months Ended January 31, 2008:

During the third quarter of fiscal year 2008, IRET acquired two commercial office properties and a multi-family residential complex for a total of approximately \$18.2 million, and completed construction of an apartment building for a cost of \$6.2 million. The Company had no material dispositions in the third quarter of fiscal year 2008.

During the second quarter of fiscal year 2008, IRET completed no property acquisitions.

During the first quarter of fiscal year 2008, the Company acquired four office/warehouse properties and a medical office building for a total purchase price of approximately \$27.2 million, excluding closing costs.

See Note 8 of Notes to Condensed Consolidated Financial Statements above for a table detailing the Company's acquisitions during the nine months ended January 31, 2008.

### FUNDS FROM OPERATIONS FOR THE THREE MONTHS AND NINE MONTHS ENDED JANUARY 31, 2008 AND 2007

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") in 1991, as clarified in 1995, 1999 and 2002. 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." 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, the gains or losses from the sale of operating real estate properties and extraordinary items as defined by 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 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 GAAP may not reflect underlying economic realities. Additionally, the exclusion, in NAREIT's definition of FFO, of gains and losses from the sales of previously depreciated operating real estate assets, allows IRET management and investors better to identify 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.

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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 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 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 and nine months ended January 31, 2008 increased to \$15.7 million and \$47.1 million, compared to \$15.6 million and \$41.7 million for the comparable periods ended January 31, 2007, an increase of 0.5% and 13.1%, respectively.

**RECONCILIATION OF NET INCOME TO FUNDS FROM OPERATIONS**

| Three Months Ended January 31,                              | <i>(in thousands, except per share amounts)</i> |                                  |                       |           |                                  |                       |
|---|---|----------------------------------|-----------------------|-----------|----------------------------------|-----------------------|
|   | 2008  |                                  |                       | 2007      |                                  |                       |
|   | Amount  | Weighted Avg Shares and Units(2) | Per Share and Unit(3) | Amount    | Weighted Avg Shares and Units(2) | Per Share and Unit(3) |
| Net income  | \$ 2,983  |                                  |                       | \$ 3,454  |                                  |                       |
| Less dividends to preferred shareholders                    | (593)   |                                  |                       | (593)     |                                  |                       |
| Net income available to common shareholders                 | 2,390   | 55,304                           | \$ .04                | 2,861     | 47,895                           | \$ .06                |
| Adjustments:  |   |                                  |                       |           |                                  |                       |
| Minority interest in earnings of Unitholders                | 858   | 20,451                           |                       | 1,139     | 19,576                           |                       |
| Depreciation and amortization(1)                            | 12,456  |                                  |                       | 11,971    |                                  |                       |
| (Gains)/loss on depreciable property sales                  | (2)   |                                  |                       | (349)     |                                  |                       |
| Funds from operations applicable to common shares and Units | \$ 15,702                                       | 75,755                           | \$ .21                | \$ 15,622 | 67,471                           | \$ .23                |

| Nine Months Ended January 31,                | <i>(in thousands, except per share amounts)</i> |                                  |                       |           |                                  |                       |
|--|---|----------------------------------|-----------------------|-----------|----------------------------------|-----------------------|
|  | 2008  |                                  |                       | 2007      |                                  |                       |
|  | Amount  | Weighted Avg Shares and Units(2) | Per Share and Unit(3) | Amount    | Weighted Avg Shares and Units(2) | Per Share and Unit(3) |
| Net income                                   | \$ 8,800  |                                  |                       | \$ 10,075 |                                  |                       |
| Less dividends to preferred shareholders     | (1,779)   |                                  |                       | (1,779)   |                                  |                       |
| Net income available to common shareholders  | 7,021   | 51,214                           | \$ .14                | 8,296     | 47,466                           | \$ .17                |
| Adjustments:                                 |   |                                  |                       |           |                                  |                       |
| Minority interest in earnings of Unitholders | 2,704   | 20,406                           |                       | 2,909     | 16,366                           |                       |

|   |           |        |        |                         |
|---|-----------|--------|--------|-------------------------|
| Depreciation and amortization(4)                            | 37,393    |        |        | 33,439                  |
| (Gains)/loss on depreciable property sales                  | (4)       |        |        | (2,986)                 |
| Funds from operations applicable to common shares and Units | \$ 47,114 | 71,620 | \$ .66 | \$ 41,658 63,832 \$ .65 |

(1) 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 \$12,521 and \$11,979, and depreciation/amortization from Discontinued Operations of \$0 and \$50, less corporate-related depreciation and amortization on office equipment and other assets of \$65 and \$58, for the three months ended January 31, 2008 and 2007, respectively.

(2) UPREIT Units of the Operating Partnership are exchangeable for common shares of beneficial interest on a one-for-one basis.

(3) Net income 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 \$37,586 and \$33,383, and depreciation/amortization from Discontinued Operations of \$0 and \$231, less corporate-related depreciation and amortization on office equipment and other assets of \$193 and \$175, for the nine months ended January 31, 2008 and 2007, 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 2008 and 2007:

| <b>Month</b> | <b>Fiscal Year 2008</b> | <b>Fiscal Year 2007</b> |
|--------------|-------------------------|-------------------------|
| July         | \$ .1665                | \$ .1645                |
| October      | .1670                   | .1650                   |
| January      | .1675                   | .1655                   |
| Total        | \$ .5010                | \$ .4950                |

### **LIQUIDITY AND CAPITAL RESOURCES**

#### **OVERVIEW**

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

The Company expects to meet its short-term liquidity requirements through net cash flows provided by its operating activities, and through draws from time to time on its unsecured lines of credit. Management considers the Company's ability to generate cash 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 expected to be funded from cash flow generated from operations of current properties.



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 UPREIT Units, additional common or preferred equity, proceeds from the sale of properties, and additional long-term secured or unsecured indebtedness.

## **SOURCES AND USES OF CASH**

Recent stresses in the United States economy, and turmoil in the credit markets resulting in large part from the sub-prime mortgage market decline, have resulted in some uncertainty regarding the prospects for the continued availability of financing to the commercial real estate sector. In IRET's recent experience, while loan terms, underwriting standards and interest rate spreads have changed significantly compared to the last five years, they are still within or close to historical norms. During the third quarter of fiscal year 2008 and subsequently to date, IRET has been able to place debt at our target leverage levels and on rates and terms equal to or below our current weighted average. While uncertainties remain, the Company does not have significant loan maturities pending in the remainder of fiscal year 2008 and in fiscal year 2009, and accordingly at this time does not have significant concerns regarding its ability to borrow.

As of January 31, 2008, the Company had three unsecured lines of credit, in the amounts of \$10.0 million, \$12.0 million and \$10.0 million, respectively, from (1) Bremer Bank, Minot, ND; (2) First Western Bank and Trust, Minot, ND; and (3) First International Bank and Trust, Watford City, ND. The Company had no outstanding borrowings on these lines as of January 31, 2008. Borrowings under the lines of credit bear interest based on the following: (1) Bremer Financial Corporation Reference Rate, (2) 175 basis points below the Prime Rate as published in the Wall Street Journal with a floor of 5.25% and a ceiling of 8.25%, and (3) Wall Street Journal prime rate. Increases in interest rates will increase the Company's interest expense on any borrowings under its lines of credit and as a result will affect the Company's results of operations and cash flows. The Company's lines of credit with Bremer Bank, First Western Bank and First International Bank and Trust expire in September 2008, December 2011 and December 2008, respectively. The Company expects to renew these lines of credit prior to their expiration.

The issuance of UPREIT Units for property acquisitions continues to be an expected source of capital for the Company. In the third quarter of fiscal year 2008, approximately 481,534 units, valued at issuance at \$4.9 million, were issued in connection with the Company's acquisition of two properties. In the third quarter of fiscal year 2007, there were no Units issued in connection with property acquisitions.

The Company has a Distribution Reinvestment 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 at a discount of 5%

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from the market price. During the third quarter of fiscal year 2008, the Company revised its DRIP to add a voluntary cash contribution feature, which permits shareholders participating in the DRIP to make optional cash payments of \$250 to \$3,000 per month to purchase IRET common shares at a discount (currently 5%) from the market price. The Company issued 357,537 common shares under its DRIP during the third quarter of fiscal year 2008.

Cash and cash equivalents on January 31, 2008 totaled \$76.4 million, compared to \$43.6 million on January 31, 2007, an increase of \$32.8 million. Net cash used for investing activities decreased by \$81.8 million, primarily due to less

cash received from sales of properties and less cash used for acquisitions compared to the nine months ended January 31, 2007; and net cash provided by financing activities decreased by \$75.8 million primarily due to lower net mortgage loan proceeds offset by the issuance of 6.9 million common shares with net proceeds of \$66.4 million as compared to the nine months ended January 31, 2007. Consequently, the net increase in cash and cash equivalents rose by \$5.8 million as compared to the nine months ended January 31, 2007.

## FINANCIAL CONDITION

*Mortgage Loan Indebtedness.* Mortgage loan indebtedness increased to \$975.8 million on January 31, 2008, due to new debt placed on new and existing properties, from \$951.1 million on April 30, 2007. Approximately 97.5% of such 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, 2008, the weighted average rate of interest on the Company's mortgage debt was 6.44%, compared to 6.43% on April 30, 2007.

*Real Estate Owned.* Real estate owned increased to \$1,558.6 million at January 31, 2008 from \$1,489.3 million at April 30, 2007. The increase resulted primarily from the acquisition of the additional investment properties as described above in the "Property Acquisitions" 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, 2008 were \$76.4 million, compared to \$44.5 million on April 30, 2007. The increase in cash on hand on January 31, 2008, as compared to April 30, 2007, was due primarily to the net proceeds received from the Company's sale in October 2007 of 6.9 million common shares in a public offering.

*Marketable Securities.* The Company's investment of marketable securities classified as available-for-sale was \$2.2 million on January 31, 2008, and \$2.0 million on April 30, 2007. Marketable securities are held available for sale and, from time to time, the Company invests excess funds in such securities or uses the funds so invested for operational purposes.

*Operating Partnership Units.* Outstanding units in the Operating Partnership increased to 20.4 million Units on January 31, 2008, compared to 20.0 million Units outstanding on April 30, 2007. This increase resulted primarily from the issuance of additional limited partnership units to acquire interests in real estate, net of Units converted to common shares.

*Common and Preferred Shares of Beneficial Interest.* Common shares of beneficial interest outstanding on January 31, 2008 totaled 57.0 million, compared to 48.6 million outstanding on April 30, 2007. This increase in common shares outstanding was primarily due to the Company's October 2007 public offering of 6.9 million shares. The Company also issued common shares pursuant to our Distribution Reinvestment Plan, consisting of approximately 281,447 common shares issued on July 2, 2007, approximately 243,621 common shares issued on October 1, 2007, and approximately 357,537 common shares issued on January 16, 2008 for total value of \$8.4 million. Conversions of 39,544 UPREIT Units to common shares, for a total of \$303,000 in shareholders' equity in the first three months of fiscal year 2008, of 379,740 UPREIT Units to common shares for a total for \$2.7 million in shareholders equity in the second quarter of fiscal year 2008, and of 200,151 UPREIT Units to common shares for a total of \$1.4 million in shareholder's equity in the third quarter of fiscal year 2008, in shareholders, also increased the Company's common shares of beneficial interest outstanding during the three and nine months ended January 31, 2008. Additionally, approximately 6,152 common share have been issued under the Company's 401(k) plan during the nine months ended January 31, 2008, with a total value of \$59,303 included shareholders' equity. Preferred shares of beneficial interest outstanding on January 31, 2008 and April 30, 2007 totaled 1.2 million.

## PENDING ACQUISITIONS AND DISPOSITIONS

During the third quarter of fiscal year 2008, the Company signed a purchase agreement to acquire a one-story, approximately 199,000 sq. ft. office/warehouse located in Eagan, MN, for a total purchase price of \$6.4 million, payable in cash and UPREIT Units. This proposed acquisition, which is expected to close in the fourth quarter of the Company's current fiscal year, is subject to various closing conditions and contingencies, and no assurances can be given that this transaction will be completed. Also during the third quarter of fiscal year 2008, the Company entered into an agreement to sell a multi-family residential property located in Devils Lake, North Dakota, for a sale price of approximately \$940,000. This disposition is subject to various closing conditions and contingencies, and no assurances can be given that this proposed sale will be completed.

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### 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 97% of our debt, as of January 31, 2008 and April 30, 2007, is at fixed interest rates, we have little exposure to interest rate fluctuation risk on our existing debt, and accordingly interest rate increases during the third quarter of fiscal year 2008 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 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, 2008, we had the following amount of future principal and interest payments due on mortgages secured by our real estate:

#### Future Principal Payments (in thousands)

| Long Term Debt            | Remaining   |             |             |             |             |            | Total      |
|---------------------------|-------------|-------------|-------------|-------------|-------------|------------|------------|
|                           | Fiscal 2008 | Fiscal 2009 | Fiscal 2010 | Fiscal 2011 | Fiscal 2012 | Thereafter |            |
| Fixed Rate                | \$ 12,872   | \$45,629    | \$127,102   | \$100,595   | \$ 82,076   | \$ 582,838 | \$ 951,112 |
| Variable Rate             | 322         | 3,672       | 3,605       | 1,174       | 4,149       | 11,751     | 24,673     |
|                           |             |             |             |             |             |            | \$ 975,785 |
| Average Interest Rate (%) | (1)         | (1)         | (1)         | (1)         | (1)         | (1)        | (1)        |

#### Future Interest Payments (in thousands)

| Long Term Debt            | Remaining   |             |             |             |             |            | Total      |
|---------------------------|-------------|-------------|-------------|-------------|-------------|------------|------------|
|                           | Fiscal 2008 | Fiscal 2009 | Fiscal 2010 | Fiscal 2011 | Fiscal 2012 | Thereafter |            |
| Fixed Rate                | \$ 14,846   | \$58,568    | \$ 53,184   | \$ 45,236   | \$ 38,922   | \$ 170,927 | \$ 381,683 |
| Variable Rate(2)          | 328         | 1,379       | 1,144       | 1,016       | 846         | 1,247      | 5,960      |
|                           |             |             |             |             |             |            | \$ 387,643 |
| Average Interest Rate (%) | (1)         | (1)         | (1)         | (1)         | (1)         | (1)        | (1)        |

(1) *The weighted average interest rate on our debt as of January 31, 2008, was 6.44%. Any fluctuations in variable interest rates could increase or decrease our interest expenses. For example, an increase of one percent per annum on our \$24.7 million of variable rate indebtedness would increase our annual interest expense by \$247,000.*

(2) *Based on rates in effect at January 31, 2008.*

#### **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, 2008, such disclosure controls and procedures were effective.

**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**

The following risk factor supplements the risk factors disclosed in our Annual Report on Form 10-K for the year ending April 30, 2007:

*Financing our future growth or refinancing existing debt maturities could be impacted by negative capital market conditions.*

Recently, domestic financial markets have experienced unusual volatility and uncertainty. While this condition has occurred most visibly within the "subprime" mortgage lending sector of the credit market, liquidity has tightened in overall domestic financial markets, including the investment grade debt and equity capital markets. Consequently, there is greater uncertainty regarding our ability to access the credit market in order to attract financing on reasonable terms. Our ability to finance our pending or new acquisitions as well as our ability to refinance debt maturities could be adversely affected by our inability to secure permanent financing on reasonable terms, if at all.

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

During the third quarter of fiscal year 2008, the Company issued an aggregate of 70,033 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. Submission of Matters to a Vote of Security Holders.**

None

**Item 5. Other Information.**

In December 2007, the Compensation Committee of the Board of Trustees approved the annual base salaries (effective January 1, 2008) of the Company's executive officers. A table setting forth the annual base salary levels for the Company's executive officers for calendar years 2008 and 2007 is filed as Exhibit 10 to this Quarterly Report on Form 10-Q, and is incorporated herein by reference.

**Item 6. Exhibits**

| <b>Exhibit No.</b> | <b>Description</b>  |
|--------------------|---|
| 10                 | Material Contracts  |
| 31.1               | Certification by Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.   |
| 31.2               | Certification by Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.   |
| 32                 | 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. |

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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/ Thomas A. Wentz, Sr.  
Thomas A. Wentz, Sr.  
President and Chief Executive Officer

/s/ Diane K. Bryantt  
Diane K. Bryantt  
Senior Vice President and Chief Financial Officer  
Date: March 11, 2008

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