

INVESTORS REAL ESTATE TRUST

Form 10-Q

March 12, 2009

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, 2009

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 R No

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

Large accelerated filer
Non-accelerated filer

Accelerated filer R
Smaller Reporting Company

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

Yes

No

Registrant is a North Dakota Real Estate Investment Trust. As of March 9, 2009, it had 59,154,891 common shares of beneficial interest outstanding.

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PART I

ITEM 1. FINANCIAL STATEMENTS - THIRD QUARTER - FISCAL 2009

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

| | (in thousands, except share data) | |
|--|--------------------------------------|---------------------|
| | January 31, 2009 | April 30, 2008 |
| ASSETS | | |
| Real estate investments | | |
| Property owned | \$ 1,719,690 | \$ 1,648,259 |
| Less accumulated depreciation | (251,493) | (219,379) |
| | 1,468,197 | 1,428,880 |
| Development in progress | 0 | 22,856 |
| Unimproved land | 5,695 | 3,901 |
| Mortgage loans receivable, net of allowance of \$3 and \$11, respectively | 161 | 541 |
| Total real estate investments | 1,474,053 | 1,456,178 |
| Other assets | | |
| Cash and cash equivalents | 31,022 | 53,481 |
| Marketable securities – available-for-sale | 420 | 420 |
| Receivable arising from straight-lining of rents, net of allowance of \$819 and \$992, respectively | 15,558 | 14,113 |
| Accounts receivable, net of allowance of \$492 and \$261, respectively | 3,678 | 4,163 |
| Real estate deposits | 242 | 1,379 |
| Prepaid and other assets | 1,514 | 349 |
| Intangible assets, net of accumulated amortization of \$42,830 and \$34,493, respectively | 55,663 | 61,649 |
| Tax, insurance, and other escrow | 8,271 | 8,642 |
| Property and equipment, net of accumulated depreciation of \$1,020 and \$1,328, respectively | 1,436 | 1,467 |
| Goodwill | 1,392 | 1,392 |
| Deferred charges and leasing costs, net of accumulated amortization of \$9,591 and \$7,265, respectively | 16,039 | 14,793 |
| TOTAL ASSETS | \$ 1,609,288 | \$ 1,618,026 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| LIABILITIES | | |
| Accounts payable and accrued expenses | \$ 32,275 | \$ 33,757 |
| Revolving lines of credit | 8,500 | 0 |
| Mortgages payable | 1,068,127 | 1,063,858 |
| Other | 1,636 | 978 |
| TOTAL LIABILITIES | 1,110,538 | 1,098,593 |
| COMMITMENTS AND CONTINGENCIES (NOTE 6) | | |
| MINORITY INTEREST IN PARTNERSHIPS | 13,000 | 12,609 |
| MINORITY INTEREST OF UNITHOLDERS IN OPERATING PARTNERSHIP (21,184,054 units at January 31, 2009 and 21,238,342 units at April 30, 2008) | 153,566 | 161,818 |

SHAREHOLDERS' EQUITY

| | | |
|--|---------------------|---------------------|
| Preferred Shares of Beneficial Interest (Cumulative redeemable preferred shares, no par value, 1,150,000 shares issued and outstanding at January 31, 2009 and April 30, 2008, aggregate liquidation preference of \$28,750,000) | 27,317 | 27,317 |
| Common Shares of Beneficial Interest (Unlimited authorization, no par value, 59,127,397 shares issued and outstanding at January 31, 2009, and 57,731,863 shares issued and outstanding at April 30, 2008) | 452,440 | 440,187 |
| Accumulated distributions in excess of net income | (147,573) | (122,498) |
| Total shareholders' equity | 332,184 | 345,006 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | \$ 1,609,288 | \$ 1,618,026 |

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

INVESTORS REAL ESTATE TRUST AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited)
for the three months and nine months ended January 31, 2009 and 2008

| | Three Months Ended January 31 | | Nine Months Ended January 31 | |
|---|----------------------------------|---------------|---------------------------------|----------------|
| | 2009 | 2008 | 2009 | 2008 |
| REVENUE | | | | |
| Real estate rentals | \$ 49,061 | \$ 44,655 | \$ 145,575 | \$ 133,291 |
| Tenant reimbursement | 11,873 | 9,769 | 33,778 | 28,917 |
| TOTAL REVENUE | 60,934 | 54,424 | 179,353 | 162,208 |
| EXPENSES | | | | |
| Interest | 17,341 | 15,840 | 51,307 | 46,969 |
| Depreciation/amortization related to real estate investments | 14,023 | 12,152 | 40,821 | 36,505 |
| Utilities | 4,961 | 4,184 | 14,002 | 12,428 |
| Maintenance | 7,672 | 6,181 | 21,256 | 18,208 |
| Real estate taxes | 7,549 | 6,743 | 22,406 | 19,635 |
| Insurance | 734 | 669 | 2,238 | 1,925 |
| Property management expenses | 4,983 | 3,790 | 13,754 | 11,298 |
| Administrative expenses | 1,213 | 1,234 | 3,569 | 3,457 |
| Advisory and trustee services | 123 | 114 | 337 | 354 |
| Other expenses | 313 | 343 | 1,157 | 1,053 |
| Amortization related to non-real estate investments | 527 | 356 | 1,455 | 1,039 |
| TOTAL EXPENSES | 59,439 | 51,606 | 172,302 | 152,871 |
| Interest income | 123 | 953 | 556 | 1,646 |
| Other income | 29 | 70 | 132 | 443 |
| Income before gain on sale of other investments and minority interest and discontinued operations | 1,647 | 3,841 | 7,739 | 11,426 |
| Gain on sale of other investments | 0 | 2 | 54 | 4 |
| Minority interest portion of operating partnership income | (284) | (855) | (1,631) | (2,691) |
| Minority interest portion of other partnerships' (income) loss | 15 | (11) | 97 | 25 |
| Income from continuing operations | 1,378 | 2,977 | 6,259 | 8,764 |
| Discontinued operations, net of minority interest | 0 | 6 | 0 | 36 |
| NET INCOME | 1,378 | 2,983 | 6,259 | 8,800 |
| Dividends to preferred shareholders | (593) | (593) | (1,779) | (1,779) |
| NET INCOME AVAILABLE TO COMMON SHAREHOLDERS | | | | |
| Earnings per common share from continuing operations | \$.02 | \$.04 | \$.08 | \$.14 |
| Earnings per common share from discontinued operations | .00 | .00 | .00 | .00 |
| NET INCOME PER COMMON SHARE – BASIC AND DILUTED | \$.02 | \$.04 | \$.08 | \$.14 |

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

INVESTORS REAL ESTATE TRUST AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY (unaudited)
 for the nine months ended January 31, 2009

(in thousands)

| | NUMBER OF PREFERRED SHARES | NUMBER OF PREFERRED SHARES | NUMBER OF COMMON SHARES | NUMBER OF COMMON SHARES | ACCUMULATED DISTRIBUTIONS IN EXCESS OF NET INCOME | ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) | TOTAL SHAREHOLDERS' EQUITY |
|---------------------------------------|-------------------------------------|-------------------------------------|----------------------------------|----------------------------------|---|---|----------------------------------|
| Balance April 30, 2008 | 1,150 | \$ 27,317 | 57,732 | \$ 440,187 | \$ (122,498) | \$ 0 | \$ 345,006 |
| Net income | | | | | 6,259 | | 6,259 |
| Distributions – common shares | | | | | (29,555) | | (29,555) |
| Distributions – preferred shares | | | | | (1,779) | | (1,779) |
| Distribution reinvestment plan | | | 903 | 8,707 | | | 8,707 |
| Sale of shares | | | 92 | 876 | | | 876 |
| Redemption of units for common shares | | | 400 | 2,670 | | | 2,670 |
| Balance January 31, 2009 | 1,150 | \$ 27,317 | 59,127 | \$ 452,440 | \$ (147,573) | \$ 0 | \$ 332,184 |

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

INVESTORS REAL ESTATE TRUST AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)
for the nine months ended January 31, 2009 and 2008

| | Nine Months Ended January 31 (in thousands) | |
|--|---|----------|
| | 2009 | 2008 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net Income | \$ 6,259 | \$ 8,800 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 43,059 | 38,156 |
| Minority interest portion of income | 1,534 | 2,679 |
| Gain on sale of real estate, land and other investments | (54) | (4) |
| Bad debt expense | 1,047 | 696 |
| Changes in other assets and liabilities: | | |
| Increase in receivable arising from straight-lining of rents | (1,916) | (1,268) |
| Decrease (increase) in accounts receivable | 903 | (961) |
| Increase in prepaid and other assets | (1,165) | (253) |
| Decrease (increase) in tax, insurance and other escrow | 371 | (838) |
| Increase in deferred charges and leasing costs | (3,646) | (3,412) |
| Decrease in accounts payable, accrued expenses, and other liabilities | (2,764) | (128) |
| Net cash provided by operating activities | 43,628 | 43,467 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Proceeds from sale of marketable securities – available-for-sale | 0 | 6 |
| Net proceeds (payments) of real estate deposits | 1,137 | (368) |
| Principal proceeds on mortgage loans receivable | 373 | 18 |
| Investment in mortgage loans receivable | 0 | (167) |
| Purchase of marketable securities – available-for-sale | 0 | (54) |
| Proceeds from sale of real estate and other investments | 67 | 471 |
| Insurance proceeds received | 1,073 | 417 |
| Payments for acquisitions and improvements of real estate investments | (50,248) | (62,757) |
| Net cash used by investing activities | (47,598) | (62,434) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds from sale of common shares, net of issue costs | 885 | 66,420 |
| Proceeds from mortgages payable | 43,358 | 32,688 |
| Proceeds from minority partner | 717 | 0 |
| Proceeds from revolving lines of credit | 20,500 | 0 |
| Repurchase of fractional shares and minority interest units | (9) | (12) |
| Distributions paid to common shareholders, net of reinvestment of \$8,124 and \$7,833, respectively | (21,431) | (17,907) |
| Distributions paid to preferred shareholders | (1,779) | (1,779) |
| Distributions paid to unitholders of operating partnership, net of reinvestment of \$582 and \$574, respectively | (10,202) | (9,526) |
| Distributions paid to other minority partners | (229) | (132) |
| Redemption of partnership units | (158) | 0 |
| Redemption of investment certificates | 0 | (11) |
| Principal payments on mortgages payable | (39,089) | (18,842) |
| Principal payments on revolving lines of credit and other debt | (11,052) | (56) |

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| | | |
|--|-----------|-----------|
| Net cash (used) provided by financing activities | (18,489) | 50,843 |
| NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS | (22,459) | 31,876 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD | 53,481 | 44,516 |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | \$ 31,022 | \$ 76,392 |

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(continued)
INVESTORS REAL ESTATE TRUST AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited, continued)
for the nine months ended January 31, 2009 and 2008

| | Nine Months Ended January 31 (in thousands) | |
|---|---|-----------|
| | 2009 | 2008 |
| SUPPLEMENTARY SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES FOR THE PERIOD | | |
| Distribution reinvestment plan | \$ 8,124 | \$ 7,833 |
| Operating partnership distribution reinvestment plan | 582 | 574 |
| Real estate investment acquired through assumption of indebtedness and accrued costs | 0 | 10,800 |
| Assets acquired through the issuance of minority interest units in the operating partnership | 3,730 | 10,566 |
| Operating partnership units converted to shares | 2,670 | 4,335 |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION | | |
| Cash paid during the period for: | | |
| Interest on mortgages | 51,072 | 46,142 |
| Interest other | 204 | 63 |
| | \$ 51,276 | \$ 46,205 |

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

INVESTORS REAL ESTATE TRUST AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)
for the nine months ended January 31, 2009 and 2008

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, 2009, IRET owned 78 multi-family residential properties with 9,645 apartment units and 166 commercial properties, consisting of office, medical, industrial and retail properties, totaling 11.7 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 73.1%, respectively, as of January 31, 2009 and April 30, 2008. 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, 2008, filed with the SEC.

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 April 2008, the Financial Accounting Standards Board ("FASB") issued FASB Staff Position ("FSP") No. FAS 142-3, Determination of the Useful Life of Intangible Assets ("FSP 142-3"). FSP 142-3 removes the requirement under Statement of Financial Accounting Standards ("SFAS") No. 142, Goodwill and Other Intangible Assets, to consider whether an intangible asset can be renewed without substantial cost or material modifications to the existing terms and conditions and replaces it with a requirement that an entity consider its own historical experience in renewing similar arrangements, or a consideration of market participant assumptions in the absence of historical experience. FSP 142-3 also requires entities to disclose information that enables users of financial statements to assess the extent to which the expected future cash flows associated with the asset are affected by the entity's intent and/or ability to renew or extend the arrangement. FSP 142-3 is effective for fiscal years beginning on or after December 15, 2008. Earlier adoption is prohibited. The adoption of FSP 142-3 is not expected to have a material impact on the Company's financial position and results of operations.

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. The Company is currently evaluating the impact of adopting SFAS 160 on its consolidated results of operations and financial condition.

In December 2007, the FASB issued SFAS 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 adoption of this standard on May 1, 2009 could materially impact our future financial results to the extent that we acquire significant amounts of real estate, as related acquisition costs will be expensed as incurred compared to our current practice of capitalizing such costs and amortizing them over the estimated useful life of the assets acquired. The Company is currently evaluating the impact of this statement on the Company's consolidated financial statements.

In February 2007, the FASB issued 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 was effective for the Company on May 1, 2008. The adoption of SFAS No. 159 did not have any impact on the Company’s financial statements because the Company did not elect to measure any financial assets or liabilities at fair value.

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 was effective for the Company on May 1, 2008; however, FASB Staff Position No. 157-2 defers the effective date for certain non-financial assets and liabilities not re-measured at fair value on a recurring basis to fiscal years beginning

after November 15, 2008, or our first quarter of fiscal year 2010. The Company is currently evaluating the impact of FASB Staff Position No. 157-2 on the Company's consolidated financial statements.

SFAS 157 establishes a valuation hierarchy for disclosure of the inputs to valuation used to measure fair value. This hierarchy prioritizes the inputs into three broad levels as follows. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are quoted prices for similar assets and liabilities in active markets or inputs that are observable for the asset or liability, either directly or indirectly through market corroboration, for substantially the full term of the financial instrument. Level 3 inputs are unobservable inputs based upon our own assumptions used to measure assets and liabilities at fair value. A financial asset or liability's classification within the hierarchy is determined based on the lowest level of input that is significant to the fair value measurement. At January 31, 2009, our marketable securities are carried at fair value measured on a recurring basis. Fair values are determined through the use of unadjusted quoted prices in active markets, which are inputs that are classified as Level 1 in the valuation hierarchy.

In June 2008, the FASB issued FASB Staff Position on Emerging Issues Task Force Issue 03-6, "Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities" ("FSP EITF 03-6-1"). FSP EITF 03-6-1 states that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings per share ("EPS") pursuant to the two-class method. FSP EITF 03-6-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those years. All prior-period EPS data presented shall be adjusted retrospectively (including interim financial statements, summaries of earnings, and selected financial data) to conform with the provisions of FSP EITF 03-6-1. Early application is not permitted. The Company currently has no share-based payment awards outstanding, but expects that in the future some may be granted under its 2008 Incentive Award Plan approved by shareholders in September 2008. The Company does not expect that its adoption of this staff position on May 1, 2009 will materially impact the Company's EPS calculations.

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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, 2009 and 2008:

| | Three Months Ended January 31 | | Nine Months Ended January 31 | |
|--|---------------------------------------|---------------|---------------------------------|---------------|
| | (in thousands, except per share data) | | | |
| | 2009 | 2008 | 2009 | 2008 |
| NUMERATOR | | | | |
| Income from continuing operations | \$ 1,378 | \$ 2,977 | \$ 6,259 | \$ 8,764 |
| Discontinued operations, net | 0 | 6 | 0 | 36 |
| Net income | 1,378 | 2,983 | 6,259 | 8,800 |
| Dividends to preferred shareholders | (593) | (593) | (1,779) | (1,779) |
| Numerator for basic earnings per share – net income available to common shareholders | 785 | 2,390 | 4,480 | 7,021 |
| Minority interest portion of operating partnership income | 284 | 858 | 1,631 | 2,704 |
| Numerator for diluted earnings per share | \$ 1,069 | \$ 3,248 | \$ 6,111 | \$ 9,725 |
| DENOMINATOR | | | | |
| Denominator for basic earnings per share - weighted average shares | 58,832 | 55,304 | 58,373 | 51,214 |
| Effect of convertible operating partnership units | 21,206 | 20,451 | 21,269 | 20,406 |
| Denominator for diluted earnings per share | 80,038 | 75,755 | 79,642 | 71,620 |
| Earnings per common share from continuing operations – basic and diluted | \$.02 | \$.04 | \$.08 | \$.14 |
| Earnings per common share from discontinued operations – basic and diluted | .00 | .00 | .00 | .00 |
| NET INCOME PER COMMON SHARE – BASIC AND DILUTED | \$.02 | \$.04 | \$.08 | \$.14 |

NOTE 4 • SHAREHOLDERS' EQUITY

As of January 31, 2009, approximately 400,000 Units have been converted to common shares during fiscal year 2009, with a total value of \$2.7 million included in shareholders' equity, and approximately 6,500 common shares have been issued under the Company's 401(k) plan, with a total value of approximately \$64,000 included in shareholders' equity. Approximately 990,000 additional common shares have been issued under the Company's Distribution Reinvestment and Share Purchase Plan during the nine months ended January 31, 2009 with a total value of \$9.5 million 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. The Company's reportable segments are aggregations of similar properties. The accounting policies of each of these segments are the same as those described in Note 2. The Company discloses 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.

IRET measures the performance of its segments based on net operating income ("NOI"), which the Company defines as total revenues less property operating expenses and real estate taxes. IRET believes that NOI is an important

supplemental measure of operating performance for a REIT's operating real estate because it provides a measure of core operations that is unaffected by depreciation, amortization, financing and general and administrative expense. NOI does not represent cash generated by operating activities in accordance with GAAP and should not be considered an alternative to net income, net income available for common shareholders or cash flow from operating activities as a measure of financial performance.

The revenues and net operating income for these reportable segments are summarized as follows for the three and nine month periods ended January 31, 2009 and 2008, along with reconciliations to the condensed consolidated financial statements. Segment assets are also reconciled to Total Assets as reported in the condensed consolidated financial statements.

(in thousands)

| Three Months Ended January 31, 2009 | Multi-Family Residential | Commercial-Office | Commercial-Medical | Commercial-Industrial | Commercial-Retail | Total |
|---|--------------------------|-------------------|--------------------|-----------------------|-------------------|-----------|
| Real estate revenue | \$ 19,394 | \$ 20,793 | \$ 13,346 | \$ 3,429 | \$ 3,972 | \$ 60,934 |
| Real estate expenses | 9,406 | 9,548 | 4,435 | 885 | 1,625 | 25,899 |
| Net operating income | \$ 9,988 | \$ 11,245 | \$ 8,911 | \$ 2,544 | \$ 2,347 | 35,035 |
| Interest | | | | | | (17,341) |
| Depreciation/amortization | | | | | | (14,550) |
| Administrative, advisory and trustee fees | | | | | | (1,336) |
| Other expenses | | | | | | (313) |
| Other income | | | | | | 152 |
| Income before gain on sale of other investments and minority interest and discontinued operations | | | | | | \$ 1,647 |

(in thousands)

| Three Months Ended January 31, 2008 | Multi-Family Residential | Commercial-Office | Commercial-Medical | Commercial-Industrial | Commercial-Retail | Total |
|--|--------------------------|-------------------|--------------------|-----------------------|-------------------|-----------|
| Real estate revenue | \$ 18,371 | \$ 20,621 | \$ 8,879 | \$ 3,028 | \$ 3,525 | \$ 54,424 |
| Real estate expenses | 8,614 | 8,853 | 2,259 | 710 | 1,131 | 21,567 |
| Net operating income | \$ 9,757 | \$ 11,768 | \$ 6,620 | \$ 2,318 | \$ 2,394 | 32,857 |
| Interest | | | | | | (15,840) |
| Depreciation/amortization | | | | | | (12,508) |
| 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 | | | | | | \$ 3,841 |

(in thousands)

| Nine Months Ended January 31, 2009 | Multi-Family Residential | Commercial-Office | Commercial-Medical | Commercial-Industrial | Commercial-Retail | Total |
|---|--------------------------|-------------------|--------------------|-----------------------|-------------------|------------|
| Real estate revenue | \$ 57,397 | \$ 62,321 | \$ 39,172 | \$ 9,500 | \$ 10,963 | \$ 179,353 |
| Real estate expenses | 27,060 | 28,194 | 12,061 | 2,420 | 3,921 | 73,656 |
| Net operating income | \$ 30,337 | \$ 34,127 | \$ 27,111 | \$ 7,080 | \$ 7,042 | 105,697 |
| Interest | | | | | | (51,307) |
| Depreciation/amortization | | | | | | (42,276) |
| Administrative, advisory and trustee fees | | | | | | (3,906) |
| Other expenses | | | | | | (1,157) |
| Other income | | | | | | 688 |
| Income before gain on sale of other investments and minority interest and discontinued operations | | | | | | \$ 7,739 |

(in thousands)

| Multi-Family | Commercial- | Commercial- | Commercial- | Commercial- | Total |
|--------------|-------------|-------------|-------------|-------------|-------|
|--------------|-------------|-------------|-------------|-------------|-------|

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| Nine Months Ended January 31, 2008 | Residential | Office | Medical | Industrial | Retail | |
|--|-------------|-----------|-----------|------------|-----------|------------|
| Real estate revenue | \$ 54,358 | \$ 61,826 | \$ 26,764 | \$ 8,718 | \$ 10,542 | \$ 162,208 |
| Real estate expenses | 25,574 | 26,289 | 6,575 | 1,836 | 3,220 | 63,494 |
| Net operating income | \$ 28,784 | \$ 35,537 | \$ 20,189 | \$ 6,882 | \$ 7,322 | 98,714 |
| Interest | | | | | | (46,969) |
| Depreciation/amortization | | | | | | (37,544) |
| 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 | | | | | | \$ 11,426 |

Segment Assets and Accumulated Depreciation

Segment assets are summarized as follows as of January 31, 2009, and April 30, 2008, along with reconciliations to the condensed consolidated financial statements:

| As of January 31, 2009 | (in thousands) | | | | | Total |
|---|--------------------------|-------------------|--------------------|-----------------------|-------------------|--------------|
| | Multi-Family Residential | Commercial-Office | Commercial-Medical | Commercial-Industrial | Commercial-Retail | |
| Segment Assets | | | | | | |
| Property owned | \$ 539,281 | \$ 569,627 | \$ 385,292 | \$ 106,584 | \$ 118,906 | \$ 1,719,690 |
| Less accumulated depreciation/amortization | (112,487) | (68,951) | (39,526) | (12,221) | (18,308) | (251,493) |
| Total property owned | \$ 426,794 | \$ 500,676 | \$ 345,766 | \$ 94,363 | \$ 100,598 | 1,468,197 |
| Cash and cash equivalents | | | | | | 31,022 |
| Marketable securities | | | | | | 420 |
| Receivables and other assets | | | | | | 103,793 |
| Development in progress | | | | | | 0 |
| Unimproved land | | | | | | 5,695 |
| Mortgage loans receivable, net of allowance | | | | | | 161 |
| Total Assets | | | | | | \$ 1,609,288 |

| As of April 30, 2008 | (in thousands) | | | | | Total |
|---|--------------------------|-------------------|--------------------|-----------------------|-------------------|--------------|
| | Multi-Family Residential | Commercial-Office | Commercial-Medical | Commercial-Industrial | Commercial-Retail | |
| Segment assets | | | | | | |
| Property owned | \$ 510,697 | \$ 556,712 | \$ 359,986 | \$ 104,060 | \$ 116,804 | \$ 1,648,259 |
| Less accumulated depreciation/amortization | (101,964) | (58,095) | (32,466) | (10,520) | (16,334) | (219,379) |
| Total property owned | \$ 408,733 | \$ 498,617 | \$ 327,520 | \$ 93,540 | \$ 100,470 | 1,428,880 |
| Cash and cash equivalents | | | | | | 53,481 |
| Marketable securities | | | | | | 420 |
| Receivables and other assets | | | | | | 107,947 |
| Development in progress | | | | | | 22,856 |
| Unimproved land | | | | | | 3,901 |
| Mortgage loans receivable, net of allowance | | | | | | 541 |
| Total Assets | | | | | | \$ 1,618,026 |

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 condensed consolidated 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 IRET properties to tenants in these properties, under lease agreements. In general, the options grant the tenant the right to purchase the property at the greater of such property's appraised value or an annual compounded increase of a specified percentage of the initial cost of the property to IRET. As of January 31, 2009, the total property cost of the 26 properties subject to purchase options was approximately \$201.8 million, and the total gross rental revenue from these properties was approximately \$14.2 million for the nine months ended January 31, 2009.

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 131 of IRET's properties, consisting of approximately 7.3 million square feet of the Company's combined commercial segments' properties and 4,101 apartment units, are subject to restrictions on taxable dispositions under agreements entered into with some of the sellers or contributors of the properties. The real estate investment amount of these properties (net of accumulated depreciation) was approximately \$865.4 million at January 31, 2009. 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, 2009, IRET's significant funding commitments include the following:

IRET Corporate Plaza: The Company is nearing completion on its construction of a mixed-use project on a parcel of land it purchased for approximately \$1.8 million in fiscal year 2007, located in Minot, North Dakota. The project consists of 71 apartments, of which 43 were leased as of March 9, 2009, and approximately 54,335 rentable square feet of office and retail space, of which the Company will occupy approximately one-third when it moves its Minot, North Dakota offices to this location during the fourth quarter of the Company's current fiscal year. The Company is currently marketing the remainder of the commercial/retail space. The expected total cost of the project is approximately \$21.0 million, including out-lot infrastructure but not including tenant improvements. As of January 31, 2009, the Company has incurred approximately \$20.9 million of the estimated construction cost of this project.

Construction interest capitalized for the three month periods ended January 31, 2009 and 2008, respectively, was approximately \$215,000 and \$109,000 for development projects completed and in progress. Construction interest capitalized for the nine month periods ended January 31, 2009 and 2008, respectively, was approximately \$912,000 and \$139,000 for development projects completed and in progress.

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, 2009. 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 for the three months and nine months ended January 31, 2008.

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| | Three Months Ended January 31 2008 | Nine Months Ended January 31 2008 |
|--|--|---|
| | (in thousands) | |
| REVENUE | | |
| Real estate rentals | \$ 48 | \$ 178 |
| Tenant reimbursements | 0 | 2 |
| TOTAL REVENUE | 48 | 180 |
| EXPENSES | | |
| Depreciation/amortization related to real estate investments | 13 | 42 |
| Utilities | 8 | 26 |
| Maintenance | 7 | 17 |
| Real estate taxes | 6 | 24 |
| Insurance | 1 | 3 |
| Property management expenses | 4 | 19 |
| TOTAL EXPENSES | 39 | 131 |
| Income before minority interest | 9 | 49 |
| Minority interest portion of operating partnership income | (3) | (13) |
| Discontinued operations, net of minority interest | \$ 6 | \$ 36 |

NOTE 8 • ACQUISITIONS AND DEVELOPMENT PROJECTS PLACED IN SERVICE

During the third quarter of fiscal year 2009, IRET acquired an approximately 69,984 square foot office/warehouse property located in Minnetonka, Minnesota, for a purchase price of \$4.0 million, consisting of \$3.0 million in cash and the balance payable under a promissory note with a ten-year term, at 6% interest. An affiliate of the seller is leasing the property on a triple-net basis for ten years. If the tenant defaults in the initial term of the lease, the then-current balance of the promissory note is forfeited to the Company. The Company had no dispositions in the third quarter of fiscal year 2009.

During the second quarter of fiscal year 2009, IRET acquired a 36-unit apartment building located in Isanti, Minnesota, for a purchase price of \$3.1 million, consisting of approximately \$1.3 million in cash and limited partnership units of IRET's operating partnership valued at approximately \$1.8 million, and also acquired an approximately 22,500 square foot one-story office building, on approximately 2.5 acres in Bismarck, North Dakota, for a purchase price of approximately \$2.2 million. The office building is connected to a vacant four-story office property that the Company is demolishing; this vacant property is classified as Unimproved Land in the table below. The Company had no material dispositions in the second quarter of fiscal year 2009.

Also, during the second quarter of fiscal year 2009, IRET completed the remaining interior work and tenant improvements in its approximately 31,643 square foot addition to the Company's Southdale Medical Building in Edina, Minnesota. The cost of the expansion project was approximately \$6.8 million, excluding relocation, tenant improvement and leasing costs incurred to relocate tenants in the existing facility. Additionally, during the second quarter of fiscal year 2009, IRET completed construction of an approximately 56,239 square foot medical office building and adjoining parking ramp next to the Company's existing five-story medical office building located at 2828 Chicago Avenue in Minneapolis, Minnesota. The new medical office building and adjoining parking ramp cost approximately \$12.8 million to construct.

During the first quarter of fiscal year 2009, IRET acquired a parcel of unimproved land in Bismarck, North Dakota for approximately \$576,000, and four small apartment buildings with a total of 52 units in Minot, North Dakota, for a total purchase price (excluding closing costs) of approximately \$2.5 million, including the issuance of limited partnership units of IRET Properties, the Company's operating partnership, valued at \$2.0 million. The Company had no dispositions in the first quarter of fiscal year 2009.

The following table details the Company's acquisitions and development projects placed in-service during the nine months ended January 31, 2009:

| Acquisitions and Development Projects Placed in Service | (in thousands) | | | |
|---|-----------------|------------------|-------------------|------------------|
| | Land | Building | Intangible Assets | Acquisition Cost |
| Multi-Family Residential | | | | |
| 33-unit Minot Westridge Apartments – Minot, ND | \$ 67 | \$ 1,887 | \$ 0 | \$ 1,954 |
| 12-unit Minot Fairmont Apartments – Minot, ND | 28 | 337 | 0 | 365 |
| 4-unit Minot 4th Street Apartments – Minot, ND | 15 | 74 | 0 | 89 |
| 3-unit Minot 11th Street Apartments – Minot, ND | 11 | 53 | 0 | 64 |
| 36-unit Evergreen Apartments – Isanti, MN | 380 | 2,720 | 0 | 3,100 |
| 10-unit 401 S. Main Apartments – Minot, ND3 | 0 | 760 | 0 | 760 |
| 71-unit IRET Corporate Plaza Apartments – Minot, ND4 | 0 | 9,010 | 0 | 9,010 |
| | 501 | 14,841 | 0 | 15,342 |
| Commercial Property - Office | | | | |
| 22,500 sq. ft. Bismarck 715 E. Broadway – Bismarck, ND | 389 | 1,267 | 255 | 1,911 |
| 54,335 sq. ft. IRET Corporate Plaza – Minot, ND4 | 0 | 3,333 | 0 | 3,333 |
| | 389 | 4,600 | 255 | 5,244 |
| Commercial Property - Medical | | | | |
| 56,239 sq. ft. 2828 Chicago Avenue – Minneapolis, MN1 | 0 | 5,052 | 0 | 5,052 |
| 31,643 sq. ft. Southdale Medical Expansion (6545 France) – Edina, MN2 | 0 | 1,378 | 0 | 1,378 |
| | 0 | 6,430 | 0 | 6,430 |
| Commercial Property - Industrial | | | | |
| 69,984 sq. ft. Minnetonka 13600 Cty Rd 62 – Minnetonka, MN | 527 | 2,460 | 1,013 | 4,000 |
| | 527 | 2,460 | 1,013 | 4,000 |
| Unimproved Land | | | | |
| Bismarck 2130 S. 12th Street – Bismarck, ND | 576 | 0 | 0 | 576 |
| Bismarck 700 E. Main – Bismarck ND | 314 | 0 | 0 | 314 |
| | 890 | 0 | 0 | 890 |
| Total Property Acquisitions | \$ 2,307 | \$ 28,331 | \$ 1,268 | \$ 31,906 |

- (1) Development property placed in service September 16, 2008. Approximately \$800,000 of this cost was incurred in the three months ended January 31, 2009. Additional costs incurred in fiscal years 2008 and 2007 totaled \$7.8 million.
- (2) Development property placed in service September 17, 2008. Approximately \$364,000 of this cost was incurred in the three months ended January 31, 2009. Additional costs incurred in fiscal year 2008 totaled \$5.4 million.
- (3) Development property placed in service November 10, 2008. Additional costs incurred in fiscal year 2008 totaled approximately \$14,000.
- (4) Development property placed in service January 19, 2009. Additional costs incurred in fiscal years 2008 and 2007 totaled \$8.6 million.

NOTE 9 • MORTGAGES PAYABLE

The Company's mortgages payable are collateralized by substantially all of its properties owned. The majority of the Company's mortgages payable are secured by individual properties or groups of properties, and are non-recourse to the

Company, other than for standard carve-out obligations such as fraud, waste, failure to insure, environmental conditions and failure to pay real estate taxes. Interest rates on mortgages payable range from 2.75% to 9.75%, and the mortgages have varying maturity dates from March 1, 2009, through April 1, 2040.

Of the mortgages payable, the balances of fixed rate mortgages totaled \$1.1 billion at January 31, 2009 and April 30, 2008. The balances of variable rate mortgages totaled \$14.6 million and \$11.7 million as of January 31, 2009, and April 30, 2008, respectively. The Company does not utilize derivative financial instruments to mitigate its exposure to changes in market interest rates. Most of the fixed rate mortgages have substantial pre-payment penalties. As of January 31, 2009, the weighted average rate of interest on the Company's mortgage debt was 6.34%, compared to 6.37% on April 30, 2008. The aggregate amount of required future principal payments on mortgages payable as of January 31, 2009, is as follows:

| Nine Months Ended January 31, 2009 | (in thousands) |
|------------------------------------|-------------------|
| 2009 (remainder) | \$ 6,982 |
| 2010 | 151,680 |
| 2011 | 103,713 |
| 2012 | 110,633 |
| 2013 | 52,384 |
| Thereafter | 642,735 |
| Total payments | \$ 1,068,127 |

NOTE 10 • SUBSEQUENT EVENTS

Common and Preferred Share Distributions. On February 25, 2009, the Company's Board of Trustees declared a regular quarterly distribution of 17.00 cents per share and unit on the Company's common shares of beneficial interest and limited partnership units of IRET Properties, payable April 1, 2009, to common shareholders and unitholders of record on March 16, 2009. Also on February 25, 2009, 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, 2009, to preferred shareholders of record on March 16, 2009.

Pending Acquisition. The Company has signed a purchase agreement to acquire a portfolio of office and retail properties located in the Minneapolis-St. Paul, MN metropolitan area. The portfolio consists of four multi-tenant office properties with a total of eleven buildings and approximately 151,708 rentable square feet, and two multi-tenant retail properties with a total of approximately 21,234 rentable square feet. Subject to the satisfactory completion of customary due diligence, the Company has agreed to pay a total of \$29.7 million for this portfolio, consisting of \$672,000 in cash, the assumption of \$19.7 million in debt on the portfolio, and the issuance of limited partner units of IRET Properties valued at \$10.25 per unit for a total value of \$9.3 million. This pending acquisition is subject to certain closing conditions and contingencies, and no assurances can be given that this transaction will be consummated on the terms summarized above, or at all.

**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, 2008, which are included in the Company's Annual Report on Form 10-K, filed with the SEC.

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

Overview. IRET is a self-advised equity REIT engaged in owning and operating income-producing real estate properties. Our investments include multi-family residential properties and commercial 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, 2009, our real estate portfolio consisted of 78 multi-family residential properties containing 9,645 apartment units and having a total real estate investment amount net of

accumulated depreciation of \$426.8 million, and 166 commercial properties containing approximately 11.7 million square feet of leasable space. Our commercial properties consist of:

- 66 office properties containing approximately 5.0 million square feet of leasable space and having a total real estate investment amount net of accumulated depreciation of \$500.7 million;
- 49 medical properties (including senior housing) containing approximately 2.3 million square feet of leasable space and having a total real estate investment amount net of accumulated depreciation of \$345.8 million;
- 18 industrial properties containing approximately 2.9 million square feet of leasable space and having a total real estate investment amount net of accumulated depreciation of \$94.3 million; and

83 retail properties containing approximately 1.5 million square feet of leasable space and having a total real estate investment amount net of accumulated depreciation of \$100.6 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.

Our third quarter fiscal year 2009 results reflect the challenges the real estate industry faced during the three months ended January 31, 2009. During this quarter, the factors adversely affecting demand for and rents received in our commercial office segment in particular became more intense and pervasive across the United States. Worsening conditions in the economy and credit markets during the third quarter of our fiscal year 2009 continued to restrain demand for commercial office, medical, industrial and retail space throughout our portfolio. We are seeing some signs that current credit market conditions and the continued deterioration in the economy are increasing credit stresses on our tenants, and we continue to expect this tenant stress to lead to moderate increases for us in past due accounts and vacancies.

During the third quarter of fiscal year 2009, Smurfit-Stone Container Corporation, our tenant in two industrial properties, filed a voluntary petition under Chapter 11 of the Bankruptcy Code. Smurfit is among our 10 largest commercial tenants based on annualized base rent, with payments under their leases with us totaling approximately \$163,000 per month, comprising approximately 1.5% of our total commercial segments' base rents. To date Smurfit is current on all base rent payments under its leases with us. We have not yet been notified of the debtor's intentions with respect to these leases.

We have written off or recorded as past due a total of \$427,000 at the Fox River project and \$694,000 at the Stevens Point project as of January 31, 2009. The Fox River project was acquired by IRET in fiscal year 2006 as a partially-completed eight-unit senior housing project with adjoining vacant land, and IRET subsequently funded the completion of the eight senior living villas and the construction of ten new senior living patio homes, which were completed in September 2007. The Stevens Point project was acquired by IRET in fiscal year 2006, and at acquisition consisted of an existing senior housing complex and an adjoining vacant parcel of land. IRET subsequently funded the construction of an expansion to the existing facility on the adjoining parcel, which was completed in June 2007. The tenants in these two properties, affiliates of Sunwest Management, Inc., have been unable to finance their portion of the construction cost for the ten new Fox River patio homes, and have been unable to fund the shortfall between the Stevens Point project's cash flow and the lease payments due to IRET. IRET's investment in the Fox River and Stevens Point properties leased to Sunwest is approximately \$3.8 million and \$14.8 million, respectively, or approximately 0.2% and 0.9% of IRET's property owned as of January 31, 2009.

IRET is currently receiving all of the cash flow generated by the Stevens Point project (approximately \$85,000 per month, or approximately 59.5% of the Scheduled Rent and other obligations due under the lease). When project

lease-up is complete and the project stabilized, IRET currently anticipates that the project will generate sufficient cash flow to pay the full rent due to IRET going forward, plus accumulated arrearages. However, project lease-up has slowed recently, as a result of current economic conditions. We currently do not expect lease-up completion prior to the third quarter of calendar year 2009. Based on information provided to IRET by the tenant in this project, as of December 31, 2008, the Stevens Point project is currently approximately 77.2% occupied in total, with the existing facility 91.1% occupied and the majority of the vacancy confined to the assisted living and memory care units completed in late fall 2007. IRET is currently receiving no payments from the Fox River project, and is exercising its rights under the lease to remove Sunwest as the tenant and manager at the project and to pursue collection of amounts owed under guarantees provided in conjunction with the lease agreement. IRET is evaluating its options in respect of this project; at this time IRET considers that, subject to its analysis of market values in Appleton, Wisconsin, IRET would proceed to market the patio homes and senior living villas and the balance of the vacant parcel (approximately 12 acres) in an attempt to recover its investment and provide some return on investment.

Individual special-purpose, bankruptcy-remote entities affiliated with Sunwest were the tenants in 19 additional senior housing facilities owned by IRET. During the second quarter of fiscal year 2009, IRET was notified that Sunwest has relinquished its ownership of these entities, and has assigned its management contracts in respect of these facilities, to an entity owned by a former principal of Edgewood Vista Senior Living, Inc., a developer and operator of senior living communities with which IRET has had a long-standing business relationship. To date all of these 19 entities are fully current on all lease obligations, and IRET does not currently expect that these 19 facilities will experience any shortfalls in lease payments.

During the second quarter of fiscal year 2009, Berman's the Leather Experts, Inc., a subsidiary of Wilson's the Leather Experts, Inc. and the Company's tenant in an approximately 353,000 square foot industrial building located in Brooklyn Park, Minnesota, declared bankruptcy along with other Wilson's Leather-affiliated entities, and rejected its lease with the Company. Subsequent to the end of the Company's third quarter, the Company signed a lease with AM Retail, which had been Berman's sub-tenant in the premises, for approximately 155,000 square feet, or approximately 44.0% of the premises. The lease terminates May 31, 2012. The rent paid under the lease will be approximately 36.0% of the total rent previously payable per month under the Company's former lease with Berman's.

Weather conditions during the third quarter of fiscal year 2009 also impacted our results of operations for the quarter. Above-normal snowfall during the quarter resulted in costs for snow removal at our properties approximately doubling compared to the year-earlier period, to \$1.9 million for the three months ended January 31, 2009, from approximately \$910,000 for the three months ended January 31, 2008. At most of our commercial properties, these snow removal costs can be billed back to the tenants as additional rent, but at our multi-family residential properties, any increase in maintenance costs is borne by us, unless we are able to impose general rent increases.

We believe that the timing of an economic recovery is unclear and economic conditions may not improve quickly. Our near-term focus is to strengthen our capital and liquidity position by evaluating the selective disposition of properties, controlling and reducing capital expenditures and overhead costs, and generating positive cash flows from operations. Our portfolio of properties is diversified by property type and location, which we believe helps mitigate risks such as changes in demographics or job growth which may occur within individual markets and industries, although it may not mitigate such risks with regard to more wide-spread economic declines. The continuation of the current economic environment and capital market disruptions have and could continue to have a negative impact on us, and adversely affect our future results of operations.

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, 2008, in Management's Discussion and Analysis of Financial Condition and Results of Operations. There have been no significant changes to those policies during the first nine months of fiscal year 2009.

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, 2009 AND 2008

REVENUES

Total IRET revenues for the third quarter of fiscal year 2009 were \$60.9 million, compared to \$54.4 million recorded in the third quarter of the prior fiscal year. This is an increase of \$6.5 million or 11.9%. Revenues for the nine months ended January 31, 2009 were \$179.4 million compared to \$162.2 million in the nine months ended January 31, 2008, an increase of \$17.2 million or 10.6%. This increase in revenue resulted primarily from the additional investments in real estate made by IRET during fiscal years 2008 and 2009, as well as other factors shown by the following analysis:

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| | (in thousands) | |
|--|--|---|
| | Increase in Total Revenue Three Months ended January 31, 2009 | Increase in Total Revenue Nine Months ended January 31, 2009 |
| Rent in Fiscal 2009 from 24 properties acquired in Fiscal 2008 in excess of that received in Fiscal 2008 from the same 24 properties | \$ 4,258 | \$ 13,841 |
| Rent from 8 properties acquired in Fiscal 2009 | 704 | 1,166 |
| Increase in rental income on stabilized properties due to a net increase in rental receipts and tenant reimbursement | 1,548 | 2,138 |
| Net increase in total revenue | \$ 6,510 | \$ 17,145 |

NET OPERATING INCOME

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 generally accepted accounting principles (“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, property operating expenses and NOI by reportable operating segment for the three months and nine months ended January 31, 2009 and 2008. For a reconciliation of net operating income of reportable segments to income before gain on sale of other investments and minority interest and discontinued operations 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 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.

| | (in thousands) | | | | | | |
|-------------------------------------|--------------------------|-------------------|--------------------|-----------------------|-------------------|--|-------|
| Three Months Ended January 31, 2009 | Multi-Family Residential | Commercial-Office | Commercial-Medical | Commercial-Industrial | Commercial-Retail | | Total |

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| | | | | | | | | | | | | |
|-------------------------------------|----|--------|----|--------|----|--------|----|-------|----|-------|----|--------|
| Real estate revenue | \$ | 19,394 | \$ | 20,793 | \$ | 13,346 | \$ | 3,429 | \$ | 3,972 | \$ | 60,934 |
| Real estate expenses | | | | | | | | | | | | |
| Utilities | | 2,166 | | 1,881 | | 710 | | 79 | | 125 | | 4,961 |
| Maintenance | | 2,603 | | 3,035 | | 1,138 | | 229 | | 667 | | 7,672 |
| Real estate taxes | | 2,021 | | 3,447 | | 1,103 | | 419 | | 559 | | 7,549 |
| Insurance | | 317 | | 245 | | 84 | | 43 | | 45 | | 734 |
| Property management | | 2,299 | | 940 | | 1,400 | | 115 | | 229 | | 4,983 |
| Total expenses | \$ | 9,406 | \$ | 9,548 | \$ | 4,435 | \$ | 885 | \$ | 1,625 | \$ | 25,899 |
| Net operating income | \$ | 9,988 | \$ | 11,245 | \$ | 8,911 | \$ | 2,544 | \$ | 2,347 | \$ | 35,035 |
| Stabilized net operating income | | | | | | | | | | | | |
| Stabilized net operating income | \$ | 9,522 | \$ | 10,745 | \$ | 6,487 | \$ | 1,893 | \$ | 2,347 | \$ | 30,994 |
| Non-stabilized net operating income | | | | | | | | | | | | |
| Non-stabilized net operating income | | 466 | | 500 | | 2,424 | | 651 | | 0 | | 4,041 |
| Total net operating income | \$ | 9,988 | \$ | 11,245 | \$ | 8,911 | \$ | 2,544 | \$ | 2,347 | \$ | 35,035 |

(in thousands)

| Three Months Ended January 31, 2008 | Multi-Family Residential | Commercial-Office | Commercial-Medical | Commercial-Industrial | Commercial-Retail | Total |
|-------------------------------------|--------------------------|-------------------|--------------------|-----------------------|-------------------|-----------|
| Real estate revenue | \$ 18,371 | \$ 20,621 | \$ 8,879 | \$ 3,028 | \$ 3,525 | \$ 54,424 |
| Real estate expenses | | | | | | |
| Utilities | 1,828 | 1,711 | 487 | 53 | 105 | 4,184 |
| Maintenance | 2,302 | 2,700 | 687 | 190 | 302 | 6,181 |
| Real estate taxes | 1,925 | 3,247 | 671 | 333 | 567 | 6,743 |
| Insurance | 291 | 226 | 74 | 35 | 43 | 669 |
| Property management | 2,268 | 969 | 340 | 99 | 114 | 3,790 |
| Total expenses | \$ 8,614 | \$ 8,853 | \$ 2,259 | \$ 710 | \$ 1,131 | \$ 21,567 |
| Net operating income | \$ 9,757 | \$ 11,768 | \$ 6,620 | \$ 2,318 | \$ 2,394 | \$ 32,857 |
| Stabilized net operating income | \$ 9,494 | \$ 11,668 | \$ 6,555 | \$ 1,904 | \$ 2,394 | \$ 32,015 |
| Non-stabilized net operating income | 263 | 100 | 65 | 414 | 0 | 842 |
| Total net operating income | \$ 9,757 | \$ 11,768 | \$ 6,620 | \$ 2,318 | \$ 2,394 | \$ 32,857 |

(in thousands)

| Nine Months Ended January 31, 2009 | Multi-Family Residential | Commercial-Office | Commercial-Medical | Commercial-Industrial | Commercial-Retail | Total |
|-------------------------------------|--------------------------|-------------------|--------------------|-----------------------|-------------------|------------|
| Real estate revenue | \$ 57,397 | \$ 62,321 | \$ 39,172 | \$ 9,500 | \$ 10,963 | \$ 179,353 |
| Real estate expenses | | | | | | |
| Utilities | 5,590 | 5,867 | 2,129 | 107 | 309 | 14,002 |
| Maintenance | 7,861 | 8,573 | 3,129 | 523 | 1,170 | 21,256 |
| Real estate taxes | 5,894 | 10,233 | 3,308 | 1,336 | 1,635 | 22,406 |
| Insurance | 949 | 746 | 280 | 127 | 136 | 2,238 |
| Property management | 6,766 | 2,775 | 3,215 | 327 | 671 | 13,754 |
| Total expenses | \$ 27,060 | \$ 28,194 | \$ 12,061 | \$ 2,420 | \$ 3,921 | \$ 73,656 |
| Net operating income | \$ 30,337 | \$ 34,127 | \$ 27,111 | \$ 7,080 | \$ 7,042 | \$ 105,697 |
| Stabilized net operating income | \$ 28,947 | \$ 32,713 | \$ 19,821 | \$ 5,216 | \$ 7,042 | \$ 93,739 |
| Non-stabilized net operating income | 1,390 | 1,414 | 7,290 | 1,864 | 0 | 11,958 |
| Total net operating income | \$ 30,337 | \$ 34,127 | \$ 27,111 | \$ 7,080 | \$ 7,042 | \$ 105,697 |

(in thousands)

| Nine Months Ended January 31, 2008 | Multi-Family Residential | Commercial-Office | Commercial-Medical | Commercial-Industrial | Commercial-Retail | Total |
|------------------------------------|--------------------------|-------------------|--------------------|-----------------------|-------------------|------------|
| Real estate revenue | \$ 54,358 | \$ 61,826 | \$ 26,764 | \$ 8,718 | \$ 10,542 | \$ 162,208 |
| Real estate expenses | | | | | | |

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| | | | | | | |
|-------------------------------------|-----------|-----------|-----------|----------|----------|-----------|
| Utilities | 4,974 | 5,598 | 1,474 | 103 | 279 | 12,428 |
| Maintenance | 7,312 | 7,783 | 1,873 | 400 | 840 | 18,208 |
| Real estate taxes | 5,703 | 9,387 | 1,980 | 972 | 1,593 | 19,635 |
| Insurance | 868 | 671 | 160 | 99 | 127 | 1,925 |
| Property management | 6,717 | 2,850 | 1,088 | 262 | 381 | 11,298 |
| Total expenses | \$ 25,574 | \$ 26,289 | \$ 6,575 | \$ 1,836 | \$ 3,220 | \$ 63,494 |
| Net operating income | \$ 28,784 | \$ 35,537 | \$ 20,189 | \$ 6,882 | \$ 7,322 | \$ 98,714 |
| Stabilized net operating income | \$ 28,219 | \$ 35,401 | \$ 20,001 | \$ 5,860 | \$ 7,322 | \$ 96,803 |
| Non-stabilized net operating income | 565 | 136 | 188 | 1,022 | 0 | 1,911 |
| Total net operating income | \$ 28,784 | \$ 35,537 | \$ 20,189 | \$ 6,882 | \$ 7,322 | \$ 98,714 |

FACTORS IMPACTING NET OPERATING INCOME

Real estate revenue increased in the three months and nine months ended January 31, 2009 compared to the year-earlier periods in all of our reportable segments primarily due to acquisitions of additional properties, despite declines in economic occupancy rates at our stabilized properties in our commercial office segment during the three months and nine months ended January 31, 2009 compared to the three months and nine months ended January 31, 2008, and in our commercial industrial segment during the nine months ended January 31, 2009 compared to the year-earlier period. Our overall level of tenant concessions increased in the first three months and nine months of fiscal year 2009 compared to the year-earlier periods. Revenue increases in the first three months and nine months of fiscal year 2009 compared to the first three months and nine months of fiscal year 2008 were offset by increases in utility, maintenance, real estate tax, insurance and property management expense.

- **Economic Occupancy.** 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 three months and nine months periods ended January 31, 2009, compared to the three months and nine months periods ended, are shown below:

| | Stabilized Properties Three Months Ended | | All Properties Three Months Ended | |
|--------------------------|---|-------|--------------------------------------|-------|
| | January 31, | | January 31, | |
| | 2009 | 2008 | 2009 | 2008 |
| Multi-Family Residential | 94.5% | 93.9% | 94.2% | 93.1% |
| Commercial Office | 88.6% | 91.3% | 88.8% | 91.3% |
| Commercial Medical | 95.5% | 95.3% | 95.0% | 95.4% |
| Commercial Industrial | 98.9% | 94.9% | 99.1% | 94.3% |
| Commercial Retail | 87.4% | 87.4% | 87.4% | 87.4% |

| | Stabilized Properties Nine Months Ended | | All Properties Nine Months Ended | |
|--------------------------|--|-------|-------------------------------------|-------|
| | January 31, | | January 31, | |
| | 2009 | 2008 | 2009 | 2008 |
| Multi-Family Residential | 94.1% | 93.4% | 93.8% | 92.9% |
| Commercial Office | 88.7% | 92.6% | 88.9% | 92.5% |
| Commercial Medical | 95.7% | 95.6% | 95.7% | 95.7% |
| Commercial Industrial | 97.1% | 97.2% | 97.7% | 96.5% |
| Commercial Retail | 87.6% | 87.1% | 87.6% | 87.1% |

- **Concessions.** Our overall level of tenant concessions increased in the three months and nine months ended January 31, 2009 compared to the year-earlier period. 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, 2009 will lower, over the lives of the respective leases, our operating revenues by approximately \$888,000, as compared to an approximately \$549,000 reduction, over the lives of the respective leases, in operating revenues attributable to rent concessions offered in the three months ended January 31, 2008. Rent concessions offered during the nine months ended January 31, 2009 will lower, over the lives of the

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respective leases, our operating revenues by approximately \$2.6 million, as compared to an approximately \$2.3 million reduction, over the lives of the respective leases in operating revenues attributable to rent concessions offered in the nine months ended January 31, 2008.

| | (in thousands) | | |
|--------------------------|--------------------------------|---------------|------------|
| | Three Months Ended January 31, | | |
| | 2009 | 2008 | Change |
| Multi-Family Residential | \$ 446 | \$ 475 | (29) |
| Commercial Office | \$ 377 | \$ 66 | 311 |
| Commercial Medical | \$ 3 | \$ 0 | 3 |
| Commercial Industrial | \$ 59 | \$ 0 | 59 |
| Commercial Retail | \$ 3 | \$ 8 | (5) |
| Total | \$ 888 | \$ 549 | 339 |

| | (in thousands) | | |
|--------------------------|-------------------------------|----------|--------|
| | Nine Months Ended January 31, | | |
| | 2009 | 2008 | Change |
| Multi-Family Residential | \$ 1,619 | \$ 1,771 | (152) |
| Commercial Office | \$ 813 | \$ 508 | 305 |
| Commercial Medical | \$ 24 | \$ 4 | 20 |
| Commercial Industrial | \$ 157 | \$ 0 | 157 |
| Commercial Retail | \$ 34 | \$ 17 | 17 |
| Total | \$ 2,647 | \$ 2,300 | 347 |

- **Increased Maintenance Expense.** Maintenance expenses totaled \$7.7 million and \$21.3 million, respectively, for the three and nine months ended January 31, 2009, compared to \$6.2 million and \$18.2 million for the three and nine months ended January 31, 2008. Maintenance expenses at properties newly acquired in fiscal years 2009 and 2008 added \$536,000 to the maintenance expenses category, while maintenance expenses at existing (“stabilized”) properties increased by \$955,000, resulting in an increase in maintenance expenses of \$1.5 million, or 24.1% for the three months ended January 31, 2009, compared to the corresponding period in fiscal year 2008. For the nine months ended January 31, 2009, maintenance costs at properties newly acquired in fiscal years 2009 and 2008 added \$1.3 million to the maintenance expenses category, and maintenance expenses at stabilized properties increased by \$1.7 million, resulting in an increase of \$3.0 million, or 16.7%, in maintenance costs, compared to the nine months ended January 31, 2008. The increase in maintenance costs at our stabilized properties is due to an increase in costs for snow removal after record snowfall in the midwest and to a lesser degree costs to complete general recurring maintenance and repairs. Under the terms of most of our commercial leases, the full cost of maintenance is paid by the tenant as additional rent. For our noncommercial real estate properties, any increase in our maintenance costs must be collected from tenants in the form of general rent increases.

Maintenance expenses by reportable segment for the three months and nine months ended January 31, 2009 and 2008 are as follows:

| Three Months Ended January 31, | (in thousands) | | | | | | Total |
|-----------------------------------|-----------------------------|----------------------|-----------------------|--------------------------|----------------------|----------|-------|
| | Multi-Family Residential | Commercial Office | Commercial Medical | Commercial Industrial | Commercial Retail | | |
| 2009 | \$ 2,603 | \$ 3,035 | \$ 1,138 | \$ 229 | \$ 667 | \$ 7,672 | |
| 2008 | \$ 2,302 | \$ 2,700 | \$ 687 | \$ 190 | \$ 302 | \$ 6,181 | |
| Change | \$ 301 | \$ 335 | \$ 451 | \$ 39 | \$ 365 | \$ 1,491 | |
| % change | 13.1% | 12.4% | 65.6% | 20.5% | 120.9% | 24.1% | |
| Stabilized | \$ 235 | \$ 264 | \$ 58 | \$ 33 | \$ 365 | \$ 955 | |
| Non-stabilized | \$ 66 | \$ 71 | \$ 393 | \$ 6 | \$ 0 | \$ 536 | |
| Change | \$ 301 | \$ 335 | \$ 451 | \$ 39 | \$ 365 | \$ 1,491 | |

| Nine Months Ended January 31, | (in thousands) | | | | | | Total |
|----------------------------------|-----------------------------|----------------------|-----------------------|--------------------------|----------------------|-----------|-------|
| | Multi-Family Residential | Commercial Office | Commercial Medical | Commercial Industrial | Commercial Retail | | |
| 2009 | \$ 7,861 | \$ 8,573 | \$ 3,129 | \$ 523 | \$ 1,170 | \$ 21,256 | |
| 2008 | \$ 7,312 | \$ 7,783 | \$ 1,873 | \$ 400 | \$ 840 | \$ 18,208 | |

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| | | | | | | | | | | | | |
|----------------|----|------|----|-------|----|-------|----|-------|----|-------|----|-------|
| Change | \$ | 549 | \$ | 790 | \$ | 1,256 | \$ | 123 | \$ | 330 | \$ | 3,048 |
| % change | | 7.5% | | 10.2% | | 67.1% | | 30.8% | | 39.3% | | 16.7% |
| Stabilized | \$ | 455 | \$ | 609 | \$ | 238 | \$ | 91 | \$ | 330 | \$ | 1,723 |
| Non-stabilized | \$ | 94 | \$ | 181 | \$ | 1,018 | \$ | 32 | \$ | 0 | \$ | 1,325 |
| Change | \$ | 549 | \$ | 790 | \$ | 1,256 | \$ | 123 | \$ | 330 | \$ | 3,048 |

- **Increased Utility Expense.** Utility expense totaled \$5.0 million and \$14.0 million, respectively, for the three and nine months ended January 31, 2009, compared to \$4.2 million and \$12.4 million for the three and nine months ended January 31, 2008, increases of, respectively, 18.6% and 12.7% over the year-earlier periods. Utility expenses at properties newly acquired in fiscal years 2009 and 2008 added \$320,000 to the utility expenses category, while utility expenses at existing properties increased by \$457,000, resulting in an increase of \$777,000 or 18.6% for the three months ended January 31, 2009. For the

nine months ended January 31, 2009, utility expenses at properties newly acquired added \$744,000 to the utility expenses category, while utility expenses at existing properties increased by \$830,000, resulting in an increase in utility expenses of \$1.6 million or 12.7%. The increases in utility costs at our stabilized properties are due primarily to serve winter weather conditions and significant snowfall in a majority of our markets in December and January, leading to sharply higher snow removal and heating costs, and to an increased heating costs for unseasonably cold temperatures during the quarter ended January 31, 2009 and to a lesser degree increased utility rates from higher fuel costs.

Utility expenses by reportable segment for the three months and nine months ended January 31, 2009 and 2008 are as follows:

| (in thousands) | | | | | | |
|-----------------------------------|-----------------------------|----------------------|-----------------------|--------------------------|----------------------|----------|
| Three Months Ended January 31, | Multi-Family Residential | Commercial Office | Commercial Medical | Commercial Industrial | Commercial Retail | Total |
| 2009 | \$ 2,166 | \$ 1,881 | \$ 710 | \$ 79 | \$ 125 | \$ 4,961 |
| 2008 | \$ 1,828 | \$ 1,711 | \$ 487 | \$ 53 | \$ 105 | \$ 4,184 |
| Change | \$ 338 | \$ 170 | \$ 223 | \$ 26 | \$ 20 | \$ 777 |
| % change | 18.5% | 9.9% | 45.8% | 49.1% | 19.0% | 18.6% |
| Stabilized | \$ 284 | \$ 154 | \$ (9) | \$ 9 | \$ 19 | \$ 457 |
| Non-stabilized | \$ 54 | \$ 16 | \$ 232 | \$ 17 | \$ 1 | \$ 320 |
| Change | \$ 338 | \$ 170 | \$ 223 | \$ 26 | \$ 20 | \$ 777 |

| (in thousands) | | | | | | |
|----------------------------------|-----------------------------|----------------------|-----------------------|--------------------------|----------------------|-----------|
| Nine Months Ended January 31, | Multi-Family Residential | Commercial Office | Commercial Medical | Commercial Industrial | Commercial Retail | Total |
| 2009 | \$ 5,590 | \$ 5,867 | \$ 2,129 | \$ 107 | \$ 309 | \$ 14,002 |
| 2008 | \$ 4,974 | \$ 5,598 | \$ 1,474 | \$ 103 | \$ 279 | \$ 12,428 |
| Change | \$ 616 | \$ 269 | \$ 655 | \$ 4 | \$ 30 | \$ 1,574 |
| % change | 12.4% | 4.8% | 44.4% | 3.9% | 10.8% | 12.7% |
| Stabilized | \$ 530 | \$ 197 | \$ 60 | \$ 13 | \$ 30 | \$ 830 |
| Non-stabilized | \$ 86 | \$ 72 | \$ 595 | \$ (9) | \$ 0 | \$ 744 |
| Change | \$ 616 | \$ 269 | \$ 655 | \$ 4 | \$ 30 | \$ 1,574 |

- **Increased Real Estate Tax Expense.** Real estate taxes on properties newly acquired in fiscal years 2009 and 2008 added \$538,000 and \$1.8 million, respectively, to real estate tax expense in the three months and nine months ended January 31, 2009, compared to the year-earlier periods. Real estate taxes on stabilized properties increased by \$268,000 and \$987,000, respectively, in the three and nine months ended January 31, 2009, compared to the three and nine months ended January 31, 2008. The increase in real estate taxes was primarily due to higher value assessments or increased tax levies on our stabilized properties.

Real estate tax expense by reportable segment for the three months and nine months ended January 31, 2009 and 2008 is as follows:

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| Three Months Ended January 31, | (in thousands) | | | | | Total |
|-----------------------------------|-----------------------------|----------------------|-----------------------|--------------------------|----------------------|----------|
| | Multi-Family Residential | Commercial Office | Commercial Medical | Commercial Industrial | Commercial Retail | |
| 2009 | \$ 2,021 | \$ 3,447 | \$ 1,103 | \$ 419 | \$ 559 | \$ 7,549 |
| 2008 | \$ 1,925 | \$ 3,247 | \$ 671 | \$ 333 | \$ 567 | \$ 6,743 |
| Change | \$ 96 | \$ 200 | \$ 432 | \$ 86 | \$ (8) | \$ 806 |
| % change | 5.0% | 6.2% | 64.4% | 25.8% | (1.4%) | 12.0% |
| Stabilized | \$ 25 | \$ 167 | \$ 60 | \$ 24 | \$ (8) | \$ 268 |
| Non-stabilized | \$ 71 | \$ 33 | \$ 372 | \$ 62 | \$ 0 | \$ 538 |
| Change | \$ 96 | \$ 200 | \$ 432 | \$ 86 | \$ (8) | \$ 806 |

| Nine Months Ended January 31, | (in thousands) | | | | | | Total |
|----------------------------------|-----------------------------|----------------------|-----------------------|--------------------------|----------------------|-----------|-------|
| | Multi-Family Residential | Commercial Office | Commercial Medical | Commercial Industrial | Commercial Retail | | |
| 2009 | \$ 5,894 | \$ 10,233 | \$ 3,308 | \$ 1,336 | \$ 1,635 | \$ 22,406 | |
| 2008 | \$ 5,703 | \$ 9,387 | \$ 1,980 | \$ 972 | \$ 1,593 | \$ 19,635 | |
| Change | \$ 191 | \$ 846 | \$ 1,328 | \$ 364 | \$ 42 | \$ 2,771 | |
| % change | 3.3% | 9.0% | 67.1% | 37.4% | 2.6% | 14.1% | |
| Stabilized | \$ 20 | \$ 660 | \$ 185 | \$ 80 | \$ 42 | \$ 987 | |
| Non-stabilized | \$ 171 | \$ 186 | \$ 1,143 | \$ 284 | \$ 0 | \$ 1,784 | |
| Change | \$ 191 | \$ 846 | \$ 1,328 | \$ 364 | \$ 42 | \$ 2,771 | |

- **Increased Insurance Expense.** Insurance expense totaled \$734,000 and \$2.2 million, respectively, for the three and nine months ended January 31, 2009, compared to \$669,000 and \$1.9 million for the three and nine months ended January 31, 2008. Insurance expenses at properties newly acquired in fiscal years 2009 and 2008 added \$28,000 to the insurance expense category, while insurance expense at existing properties increased by \$37,000, resulting in an increase in insurance expenses of \$65,000 in the three months ended January 31, 2009, a 9.7% increase over insurance expenses in the three months ended January 31, 2008. For the nine months ended January 31, 2009, insurance expenses at properties newly acquired in fiscal years 2009 and 2008 added \$134,000 to the insurance expenses category, while insurance expenses at existing properties increased by \$179,000, resulting in an increase of \$313,000 in insurance expenses, a 16.3% increase over insurance expenses in the nine months ended January 31, 2008. The increase in insurance expense at stabilized properties is due to an increase in premiums.

Insurance expense by reportable segment for the three months and nine months ended January 31, 2009 and 2008 is as follows:

| Three Months Ended January 31, | (in thousands) | | | | | | Total |
|-----------------------------------|-----------------------------|----------------------|-----------------------|--------------------------|----------------------|--------|-------|
| | Multi-Family Residential | Commercial Office | Commercial Medical | Commercial Industrial | Commercial Retail | | |
| 2009 | \$ 317 | \$ 245 | \$ 84 | \$ 43 | \$ 45 | \$ 734 | |
| 2008 | \$ 291 | \$ 226 | \$ 74 | \$ 35 | \$ 43 | \$ 669 | |
| Change | \$ 26 | \$ 19 | \$ 10 | \$ 8 | \$ 2 | \$ 65 | |
| % change | 8.9% | 8.4% | 13.5% | 22.9% | 4.7% | 9.7% | |
| Stabilized | \$ 19 | \$ 16 | \$ (2) | \$ 2 | \$ 2 | \$ 37 | |
| Non-stabilized | \$ 7 | \$ 3 | \$ 12 | \$ 6 | \$ 0 | \$ 28 | |
| Change | \$ 26 | \$ 19 | \$ 10 | \$ 8 | \$ 2 | \$ 65 | |

| Nine Months Ended January 31, | (in thousands) | | | | | | Total |
|----------------------------------|-----------------------------|----------------------|-----------------------|--------------------------|----------------------|----------|-------|
| | Multi-Family Residential | Commercial Office | Commercial Medical | Commercial Industrial | Commercial Retail | | |
| 2009 | \$ 949 | \$ 746 | \$ 280 | \$ 127 | \$ 136 | \$ 2,238 | |
| 2008 | \$ 868 | \$ 671 | \$ 160 | \$ 99 | \$ 127 | \$ 1,925 | |

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| | | | | | | | | | | | | |
|----------------|----|------|----|-------|----|-------|----|-------|----|------|----|-------|
| Change | \$ | 81 | \$ | 75 | \$ | 120 | \$ | 28 | \$ | 9 | \$ | 313 |
| % change | | 9.3% | | 11.2% | | 75.0% | | 28.3% | | 7.1% | | 16.3% |
| Stabilized | \$ | 57 | \$ | 54 | \$ | 54 | \$ | 5 | \$ | 9 | \$ | 179 |
| Non-stabilized | \$ | 24 | \$ | 21 | \$ | 66 | \$ | 23 | \$ | 0 | \$ | 134 |
| Change | \$ | 81 | \$ | 75 | \$ | 120 | \$ | 28 | \$ | 9 | \$ | 313 |

- **Increased Property Management Expense.** Property management expense totaled \$5.0 million and \$13.8 million, respectively, for the three and nine months ended January 31, 2009, compared to \$3.8 million and \$11.3 million for the three and nine months ended January 31, 2008. Property management expenses at properties newly acquired in fiscal years 2009 and 2008 added \$340,000 and \$973,000, respectively, to the property management expenses category in the three and nine months ended January 31, 2009. Property management expenses at stabilized properties increased by \$853,000 and \$1.5 million for the three and nine months ended January 31, 2009 compared to the three and nine months ended January 31, 2008. The increase in

property management expense at stabilized properties is primarily due to an increase in bad debt provision in our commercial medical segment, as a result of write-offs at our Fox River and Stevens Point projects, discussed above.

Property management expense by reportable segment for the three months and nine months ended January 31, 2009 and 2008 is as follows:

| Three Months Ended January 31, | (in thousands) | | | | | | Total |
|-----------------------------------|-----------------------------|----------------------|-----------------------|--------------------------|----------------------|----------|-------|
| | Multi-Family Residential | Commercial Office | Commercial Medical | Commercial Industrial | Commercial Retail | | |
| 2009 | \$ 2,299 | \$ 940 | \$ 1,400 | \$ 115 | \$ 229 | \$ 4,983 | |
| 2008 | \$ 2,268 | \$ 969 | \$ 340 | \$ 99 | \$ 114 | \$ 3,790 | |
| Change | \$ 31 | \$ (29) | \$ 1,060 | \$ 16 | \$ 115 | \$ 1,193 | |
| % change | 1.4% | (3.0%) | 311.8% | 16.2% | 100.9% | 31.5% | |
| Stabilized | \$ (38) | \$ (43) | \$ 817 | \$ 2 | \$ 115 | \$ 853 | |
| Non-stabilized | \$ 69 | \$ 14 | \$ 243 | \$ 14 | \$ 0 | \$ 340 | |
| Change | \$ 31 | \$ (29) | \$ 1,060 | \$ 16 | \$ 115 | \$ 1,193 | |

| Nine Months Ended January 31, | (in thousands) | | | | | | Total |
|----------------------------------|-----------------------------|----------------------|-----------------------|--------------------------|----------------------|-----------|-------|
| | Multi-Family Residential | Commercial Office | Commercial Medical | Commercial Industrial | Commercial Retail | | |
| 2009 | \$ 6,766 | \$ 2,775 | \$ 3,215 | \$ 327 | \$ 671 | \$ 13,754 | |
| 2008 | \$ 6,717 | \$ 2,850 | \$ 1,088 | \$ 262 | \$ 381 | \$ 11,298 | |
| Change | \$ 49 | \$ (75) | \$ 2,127 | \$ 65 | \$ 290 | \$ 2,456 | |
| % change | 0.7% | (2.6%) | 195.5% | 24.8% | 76.1% | 21.7% | |
| Stabilized | \$ (105) | \$ (122) | \$ 1,415 | \$ 5 | \$ 290 | \$ 1,483 | |
| Non-stabilized | \$ 154 | \$ 47 | \$ 712 | \$ 60 | \$ 0 | \$ 973 | |
| Change | \$ 49 | \$ (75) | \$ 2,127 | \$ 65 | \$ 290 | \$ 2,456 | |

FACTORS IMPACTING NET INCOME

Although revenue and net operating income increased during the three and nine months period ended January 31, 2009 compared to the three and nine months period ended January 31, 2008, net income available to common shareholders decreased by approximately \$1.6 million and \$2.5 million to \$785,000 and \$4.5 million, for the three months and nine months ended January 31, 2009, compared to \$2.4 million and \$7.0 million for the three months and nine months ended January 31, 2008. The decrease in net income is due in part to an increase in operating expenses and to a lesser degree an increase in interest expense, depreciation on newly acquired non-stabilized properties and amortization expense related to in-place leases in the three months and nine months ended January 31, 2009 compared to the three months and nine months ended January 31, 2008. Additionally, an increase in vacancy rates in our portfolio and associated operating costs for the vacant space unreimbursed by tenants, combined with the increases in property operating expenses and real estate taxes detailed above, as well as the following factors, impacted net income in the third quarter of fiscal year 2009:

- **Increased Interest Expense.** Our mortgage interest expense increased approximately \$1.5 million, or 9.5%, to approximately \$17.1 million during the third quarter of fiscal year 2009, compared to \$15.6 million in the third quarter of fiscal year 2008. Mortgage interest expense increased approximately \$4.8 million, or 10.5%, to approximately \$51.1 million during the nine months ended January 31, 2009, compared to \$46.3 million during the nine months ended January 31, 2008. The increase in mortgage interest expense is due to properties newly acquired in fiscal years 2009 and 2008. Our overall weighted average interest rate on all outstanding mortgage debt was 6.34% as of January 31, 2009 and 6.44% as of January 31, 2008. Our mortgage debt on January 31, 2009 increased approximately \$4.3 million, or 0.4% from April 30, 2008.

Mortgage interest expense by reportable segment for the three months and nine months ended January 31, 2009 and 2008 is as follows:

| Three Months Ended January 31, | (in thousands) | | | | | | Total |
|-----------------------------------|-----------------------------|----------------------|-----------------------|--------------------------|----------------------|-----------|-------|
| | Multi-Family Residential | Commercial Office | Commercial Medical | Commercial Industrial | Commercial Retail | | |
| 2009 | \$ 4,982 | \$ 5,956 | \$ 4,247 | \$ 951 | \$ 984 | \$ 17,120 | |
| 2008 | \$ 4,923 | \$ 5,823 | \$ 2,900 | \$ 925 | \$ 1,057 | \$ 15,628 | |
| Change | \$ 59 | \$ 133 | \$ 1,347 | \$ 26 | \$ (73) | \$ 1,492 | |
| % change | 1.2% | 2.3% | 46.4% | 2.8% | (6.9%) | 9.5% | |
| Stabilized | \$ (109) | \$ (52) | \$ 270 | \$ (27) | \$ (73) | \$ 9 | |
| Non-stabilized | \$ 168 | \$ 185 | \$ 1,077 | \$ 53 | \$ 0 | \$ 1,483 | |
| Change | \$ 59 | \$ 133 | \$ 1,347 | \$ 26 | \$ (73) | \$ 1,492 | |

| Nine Months Ended January 31, | (in thousands) | | | | | | Total |
|----------------------------------|-----------------------------|----------------------|-----------------------|--------------------------|----------------------|-----------|-------|
| | Multi-Family Residential | Commercial Office | Commercial Medical | Commercial Industrial | Commercial Retail | | |
| 2009 | \$ 14,749 | \$ 17,803 | \$ 12,717 | \$ 2,841 | \$ 2,986 | \$ 51,096 | |
| 2008 | \$ 14,702 | \$ 17,331 | \$ 8,546 | \$ 2,566 | \$ 3,113 | \$ 46,258 | |
| Change | \$ 47 | \$ 472 | \$ 4,171 | \$ 275 | \$ (127) | \$ 4,838 | |
| % change | 0.3% | 2.7% | 48.8% | 10.7% | (4.1%) | 10.5% | |
| Stabilized | \$ (263) | \$ (46) | \$ 980 | \$ (90) | \$ (127) | \$ 454 | |
| Non-stabilized | \$ 310 | \$ 518 | \$ 3,191 | \$ 365 | \$ 0 | \$ 4,384 | |
| Change | \$ 47 | \$ 472 | \$ 4,171 | \$ 275 | \$ (127) | \$ 4,838 | |

In addition to IRET's mortgage interest, the Company incurs interest expense for lines of credit, amortization of loan costs, security deposits, and special assessments offset by capitalized construction interest. For the three months ended January 31, 2009 and 2008 these amounts were \$221,000 and \$212,000, respectively, for a total Interest Expense for the three months ended January 31, 2009 of \$17.3 million and \$15.8 million, respectively. For the nine months ended January 31, 2009 and 2008, these amounts were \$211,000 and \$711,000 respectively for a total Interest Expense for the nine months ended January 31, 2009 of \$51.3 million and \$47.0 million respectively.

- **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 respective lease. Amortization expense related to in-place leases totaled \$2.9 million in the third quarter of fiscal year 2009, compared to \$2.3 million in the third quarter of fiscal year 2008. For the nine months ended January 31, 2009, amortization expense related to in-place leases totaled \$8.2 million compared to \$7.3 million for the nine months ended January 31, 2008.

CREDIT RISK

The following table lists our top ten commercial tenants on January 31, 2009, for all commercial properties owned by us.

| Lessee | % of Total Commercial Segments' Minimum Rents as of January 31, 2009 |
|--|--|
| Affiliates of Edgewood Vista | 10.6% |
| St. Lukes Hospital of Duluth, Inc. | 3.5% |
| Fairview Health | 2.3% |
| Applied Underwriters | 2.3% |
| Best Buy Co., Inc. (NYSE: BBY) | 2.0% |
| UGS Corp. | 1.6% |
| HealthEast Care System | 1.6% |
| Microsoft (NASDAQ: MSFT) | 1.5% |
| Smurfit - Stone Container (NASDAQ: SSSC)1 | 1.5% |
| Arcadis Corporate Services (NASDAQ: AFCAF) | 1.4% |
| All Others | 71.7% |
| Total Monthly Commercial Rent as of January 31, 2009 | 100.0% |

(1) Smurfit – Stone Container has filed bankruptcy under Chapter 11 of the Bankruptcy Code. See page 18 for additional information.

PROPERTY ACQUISITIONS AND DEVELOPMENT PROJECTS PLACED IN SERVICE

During the third quarter of fiscal year 2009, IRET acquired an approximately 69,984 square foot office/warehouse property located in Minnetonka, Minnesota, for a purchase price of \$4.0 million, consisting of \$3.0 million in cash and the balance payable under a promissory note with a ten-year term, at 6% interest. An affiliate of the seller is leasing the property on a triple-net basis for ten years. If the tenant defaults in the initial term of the lease, the then-current balance of the promissory note is forfeited to the Company. The Company had no dispositions in the third quarter of fiscal year 2009.

During the second quarter of fiscal year 2009, IRET acquired a 36-unit apartment building located in Isanti, Minnesota, for a purchase price of \$3.1 million, consisting of approximately \$1.3 million in cash and limited partnership units of IRET's operating partnership valued at approximately \$1.8 million, and also acquired an approximately 22,500 square foot one-story office building, on approximately 2.5 acres in Bismarck, North Dakota, for a purchase price of approximately \$2.2 million. The office building is connected to a vacant four-story office property that the Company is demolishing; this vacant property is classified as Unimproved Land in the table below. The Company had no material dispositions in the second quarter of fiscal year 2009.

Also during the second quarter of fiscal year 2009, IRET completed the remaining interior work and tenant improvements in its approximately 31,643 square foot addition to the Company's Southdale Medical Building in Edina, Minnesota. The cost of the expansion project was approximately \$6.8 million, excluding relocation, tenant improvement and leasing costs incurred to relocate tenants in the existing facility. Additionally, during the second

quarter of fiscal year 2009, IRET completed construction of an approximately 56,239 square foot medical office building and adjoining parking ramp next to the Company's existing five-story medical office building located at 2828 Chicago Avenue in Minneapolis, Minnesota. The new medical office building and adjoining parking ramp cost approximately \$12.8 million to construct.

During the first quarter of fiscal year 2009, IRET acquired a parcel of unimproved land in Bismarck, North Dakota for approximately \$576,000, and four small apartment buildings with a total of 52 units in Minot, North Dakota, for a total purchase price (excluding closing costs) of approximately \$2.5 million, including the issuance of limited partnership units of IRET Properties, the Company's operating partnership, valued at \$2.0 million. The Company had no dispositions in the first quarter of fiscal year 2009.

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, 2009.

FUNDS FROM OPERATIONS FOR THE THREE MONTHS AND NINE MONTHS ENDED JANUARY 31, 2009 AND 2008

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.

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 ended January 31, 2009 decreased to \$15.5 million, compared to \$15.7 million, for the comparable period ended January 31, 2008, a decrease of 1.3%. FFO applicable to common shares and units for the nine months ended January 31, 2009, increased to \$48.0 million, compared to \$47.1 million, for the comparable period ended January 31, 2008, an increase of 1.9%.

RECONCILIATION OF NET INCOME TO FUNDS FROM OPERATIONS

(in thousands, except per share amounts)

| Three Months Ended January 31, | 2009 | | 2008 | | |
|---|----------|----------------------------------|-----------------------|----------------------------------|-----------------------|
| | Amount | Weighted Avg Shares and Units(2) | Per Share and Unit(3) | Weighted Avg Shares and Units(2) | Per Share and Unit(3) |
| Net income | \$ 1,378 | | | \$ 2,983 | |
| Less dividends to preferred shareholders | (593) | | | (593) | |
| Net income available to common shareholders | 785 | 58,832 | \$.02 | 2,390 | 55,304 \$.04 |
| Adjustments: | 284 | 21,206 | | 858 | 20,451 |

| | | | | | | | | | |
|---|----|--------|--------|----|-----|--------|--------|--------|--------|
| Minority interest in earnings of Unitholders | | | | | | | | | |
| Depreciation and amortization(1) | | 14,454 | | | | 12,456 | | | |
| (Gains)/loss on depreciable property sales | | 0 | | | | (2) | | | |
| Funds from operations applicable to common shares and Units | \$ | 15,523 | 80,038 | \$ | .19 | \$ | 15,702 | 75,755 | \$.21 |

| Nine Months Ended January 31, | (in thousands, except per share amounts) | | | | | |
|---|--|---|-----------------------------|-----------|---|--------------------------------|
| | Amount | 2009 Weighted Avg Shares and Units(2) | Per Share and Unit(3) | Amount | 2008 Weighted Avg Shares and Units(2) | Per Share and Unit(3) |
| Net income | \$ 6,259 | | | \$ 8,800 | | |
| Less dividends to preferred shareholders | (1,779) | | | (1,779) | | |
| Net income available to common shareholders | 4,480 | 58,373 | \$.08 | 7,021 | 51,214 | \$.14 |
| Adjustments: | | | | | | |
| Minority interest in earnings of Unitholders | 1,631 | 21,269 | | 2,704 | 20,406 | |
| Depreciation and amortization(4) | 41,935 | | | 37,393 | | |
| (Gains)/loss on depreciable property sales | (54) | | | (4) | | |
| Funds from operations applicable to common shares and Units | \$ 47,992 | 79,642 | \$.60 | \$ 47,114 | 71,620 | \$.66 |

(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 \$14,550 and \$12,508, and depreciation/amortization from Discontinued Operations of \$0 and \$13, less corporate-related depreciation and amortization on office equipment and other assets of \$96 and \$65, for the three months ended January 31, 2009 and 2008, 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 \$42,276 and \$37,544, and depreciation/amortization from Discontinued Operations of \$0 and \$42, less corporate-related depreciation and amortization on office equipment and other assets of \$341 and \$193, for the nine months ended January 31, 2009 and 2008, respectively.

DISTRIBUTIONS

The following distributions per common share and unit were paid during the nine months ended January 31 of fiscal years 2009 and 2008:

| Month | Fiscal Year 2009 | Fiscal Year 2008 |
|---------|---------------------|---------------------|
| July | \$.1685 | \$.1665 |
| October | .1690 | .1670 |
| January | .1695 | .1675 |
| Total | \$.5070 | \$.5010 |

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 has historically met its short-term liquidity requirements through net cash flows provided by its operating activities, and, from time to time, through draws on its unsecured lines of credit. Management considers the Company's ability to generate cash from property operating activities, cash-out refinancing of existing properties and, from time to time, draws on its line of credit to be adequate to meet all operating requirements and to make distributions to its shareholders in accordance with the REIT provisions of the Internal Revenue Code. Budgeted expenditures for ongoing maintenance and capital improvements and renovations to our real estate portfolio are also generally expected to be funded from existing cash on hand, cash flow generated from property operations, cash-out refinancing of existing properties, and/or new borrowings. However, the commercial and residential real estate markets have experienced significant challenges during calendar year 2008, continuing into 2009, including reduced occupancies and rental rates as well as severe restrictions on the availability of financing. In the event of further deterioration in property operating results, or absent the Company's ability to successfully continue cash-out refinancing of existing properties and/or new borrowings, the Company may need to consider additional cash preservation alternatives, including scaling back development activities, capital improvements and renovations and reducing the level of distributions to shareholders.

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

SOURCES AND USES OF CASH

Continued and increasing stresses in the United States economy, and ongoing turmoil in the credit markets, have resulted in heightened 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 2009 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.

However, while to date there has been no material negative impact on our ability to borrow, the recent events involving both the Federal Home Loan Mortgage Corporation (Freddie Mac) and the Federal National Mortgage Association (Fannie Mae), resulting in the U.S. government's decision to place them into indefinite conservatorship, do present an environment of heightened risk for us. IRET obtains a majority of its multi-family debt from primarily Freddie Mac. Our current plan is to refinance a majority of our maturing multi-family debt with these two entities, so any change in their ability to lend going forward will most likely result in higher loan costs for us; accordingly, we are closely monitoring ongoing announcements surrounding both firms. However, there are still other sources of debt in the market, so at this point we do not anticipate an inability to borrow or refinance any maturing debt.

As of January 31, 2009, the Company had three unsecured lines of credit, in the amounts of \$10.0 million, \$12.0 million and \$14.0 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. As of January 31, 2009, the Company had an outstanding balance of \$3.0 million at First Western Bank and \$4.0 million at First International Bank and Trust. 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 2009, December 2011 and December 2009, respectively. The Company expects to renew these lines of credit prior to their expiration. In addition to these three lines of credit, the Company also has a fully-drawn \$5 million line of credit maturing in November 2009 with Dacotah Bank in Minot, North Dakota. Of this \$5 million, the Company includes \$3.5 million in mortgages payable on the Company's balance sheet, as secured by four small apartment properties owned by the Company, with the remaining \$1.5 million included in revolving lines of credit.

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 2009, there were no Units issued in connection with property acquisitions. In the third quarter of fiscal year 2008, approximately 482,000 Units, valued at issuance at \$4.9 million, were issued in connection with the Company's acquisition of two properties.

The Company has a Distribution Reinvestment and Share Purchase Plan ("DRIP"). The DRIP provides common shareholders and UPREIT Unitholders of the Company an opportunity to invest their cash distributions in common shares of the Company, and purchase additional shares through voluntary cash contributions, at a discount of 5% from

the market price. During the third quarter of fiscal year 2009, the Company issued approximately 310,000 common shares under its DRIP, with a total value of \$2.9 million.

Cash and cash equivalents on January 31, 2009 totaled \$31.0 million, compared to \$76.4 million on January 31, 2008, a decrease of \$45.4 million. Net cash used for investing activities decreased by \$14.8 million, primarily due to less cash used for acquisitions compared to the nine months ended January 31, 2008; and net cash provided by financing activities decreased by \$69.3 million primarily due to low proceeds from sale of common shares compared to the nine months ended January 31, 2008.

FINANCIAL CONDITION

Mortgage Loan Indebtedness. Mortgage loan indebtedness increased by \$4.3 million as of January 31, 2009, compared to April 30, 2008, due to new debt placed on new and existing properties. As of January 31, 2009, approximately 98.6% of the Company's \$1.1 billion of mortgage debt is at fixed rates of interest, with staggered maturities. This limits the Company's exposure to changes in

interest rates, which minimizes the effect of interest rate fluctuations on the Company's results of operations and cash flows. As of January 31, 2009, the weighted average rate of interest on the Company's mortgage debt was 6.34%, compared to 6.37% on April 30, 2008.

Property Owned. Property owned increased to \$1.7 billion at January 31, 2009 from \$1.6 billion at April 30, 2008. The increase resulted primarily from the acquisition of the additional investment properties as described above in the "Property Acquisitions and Developments Projects Placed In Service" 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, 2009 were \$31.0 million, compared to \$53.5 million on April 30, 2008.

Marketable Securities. The Company's investment in marketable securities classified as available-for-sale was approximately \$420,000 on January 31, 2009 and on April 30, 2008. 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. The issuance of additional limited partnership units to acquire interests in real estate, net of Units converted to common shares, resulted in the outstanding units in the Operating Partnership remaining at 21.2 million Units at January 31, 2009 compared to April 31, 2008.

Common and Preferred Shares of Beneficial Interest. Common shares of beneficial interest outstanding on January 31, 2009 totaled 59.1 million, compared to 57.7 million outstanding on April 30, 2008. The Company issued common shares pursuant to our Distribution Reinvestment and Share Purchase Plan, consisting of approximately 990,000 common shares issued during the nine months ended January 31, 2009, for total value of \$9.5 million. Conversions of approximately 400,000 UPREIT Units to common shares, for a total of \$2.7 million in shareholders' equity also increased the Company's common shares of beneficial interest outstanding during the nine months ended January 31, 2009.

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 98.6% of our debt, as of January 31, 2009 (98.9% as of April 30, 2008), is at fixed interest rates, we have little exposure to interest rate fluctuation risk on our existing debt, and accordingly interest rate fluctuations during the third quarter of fiscal year 2009 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, 2009, we had the following amount of future principal and interest payments due on mortgages secured by our real estate:

| | Future Principal Payments (in thousands) | | | | | | | |
|----------------|--|-------------|-------------|-------------|-------------|------------|--------------|--|
| | Remaining | | | | | | | |
| Long Term Debt | Fiscal 2009 | Fiscal 2010 | Fiscal 2011 | Fiscal 2012 | Fiscal 2013 | Thereafter | Total | |
| Fixed Rate | \$ 6,871 | \$ 148,735 | \$ 103,243 | \$ 110,138 | \$ 47,287 | \$ 637,253 | \$ 1,053,527 | |
| Variable Rate | 111 | 2,945 | 470 | 495 | 5,097 | 5,482 | 14,600 | |

\$ 1,068,127

Future Interest Payments (in thousands)

| Long Term Debt | Remaining | | | | | | Total |
|----------------|-------------|-------------|-------------|-------------|-------------|------------|------------|
| | Fiscal 2009 | Fiscal 2010 | Fiscal 2011 | Fiscal 2012 | Fiscal 2013 | Thereafter | |
| Fixed Rate | \$ 17,958 | \$ 62,283 | \$ 53,710 | \$ 44,862 | \$ 39,867 | \$ 158,750 | \$ 377,430 |
| Variable Rate | 20 | 696 | 633 | 608 | 496 | 2,351 | 4,804 |
| | | | | | | | \$ 382,234 |

The weighted average interest rate on our debt as of January 31, 2009, was 6.34%. Any fluctuations in variable interest rates could increase or decrease our interest expenses. For example, an increase of one percent per annum on our \$14.6 million of variable rate indebtedness would increase our annual interest expense by \$146,000.

ITEM 4. CONTROLS AND PROCEDURES

IRET's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this report. Based on such evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of January 31, 2009, 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.

PART II — OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

Important factors that could cause our actual results to be materially different from expectations expressed in forward-looking statements include the risk factors previously disclosed in our Annual Report on Form 10-K for the fiscal year ended April 30, 2008, as well as the following risk factors:

If the current global economic crisis worsens or continues in the long-term, our business, results of operations, cash flows and financial condition could be adversely affected. What began initially as a "subprime" mortgage crisis has turned into an extraordinary United States and worldwide structural economic and financial crisis. Over the past twelve to eighteen months, many factors have contributed to diminish expectations for the U.S. and global economy and increase market volatility for publicly-traded securities. These factors include the cost and availability of credit, limited liquidity in the U.S. home mortgage market, declining real estate fundamentals and market valuations, declining business and consumer confidence, and increased unemployment. These conditions have combined to create an unprecedented level of market volatility, and have also caused a significant decline in available credit from financial institutions and other lenders. This difficult operating environment may adversely affect our tenants, key vendors and contractors, and our own financial condition, results of operations, ability to fund our acquisition activities and tenant improvements and to refinance debt, and our access to capital. If we are not able to attract financing on satisfactory terms and we do not have sufficient operating cash flow to meet our normal business obligations, we may need to find alternative ways to increase liquidity, including, without limitation, divesting properties whether or not they otherwise meet our long-term strategic goals; issuing and selling debt and equity securities in public or private transactions under less than optimal terms; entering into leases with our tenants at lower rental rates or less than optimal terms; and entering into lease renewals with our existing tenants without an increase in rental rates.

Volatility in capital and credit markets could adversely affect us. The capital and credit markets have been experiencing extreme volatility and disruption for more than 12 months. If current levels of market disruptions and volatility continue or worsen, we may not be able to obtain new debt financing or refinance our existing debt on favorable terms or at all, which would adversely affect our liquidity and our ability to make distributions to shareholders and unitholders. Additionally, this market turmoil and tightening of credit have led to a significant deterioration in consumer confidence and a widespread reduction of business activity generally, which have adversely affected us and may continue to adversely affect us, including our ability to acquire and dispose of assets.

We could be negatively affected by the condition of Fannie Mae and Freddie Mac. Fannie Mae and Freddie Mac are major sources of financing for multi-family rental real estate. We and other companies that own multi-family residential properties depend heavily on Fannie Mae and Freddie Mac for financing. In September 2008, the U.S. government assumed control of Fannie Mae and Freddie Mac and placed both companies into a government conservatorship under the recently-created Federal Housing Finance

Agency. The U.S. government has not determined which of Fannie Mae's and Freddie Mac's businesses to retain and which to dissolve. A decision by the government to reduce Fannie Mae's or Freddie Mac's acquisitions of apartment loans could adversely affect interest rates, capital availability and the development of multi-family communities. Governmental actions could also make it easier for individuals to finance loans for single-family homes, which would make renting a less attractive option and adversely affect our occupancy rates.

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

During the third quarter of fiscal year 2009, the Company issued an aggregate of 30,222 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 2008, the Compensation Committee of the Board of Trustees approved the annual base salaries (effective January 1, 2009) of the Company's executive officers. In view of worsening global economic conditions and the Company's commitment to cost-containment, Compensation Committee decided to freeze the salaries of the three most highly paid executives at 2008 levels. A table setting forth the annual base salary levels for the Company's executive officers (those identified as "named executive officers" in the Company's proxy statement for its 2008 Annual Meeting of Shareholders) for calendar years 2009 and 2008 is filed as Exhibit 10 to this Quarterly Report on Form 10-Q, and is incorporated herein by reference.

Item 6. Exhibits

| Exhibit No. | Description |
|-------------|---|
| 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. |

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 12, 2009

