

INVESTORS REAL ESTATE TRUST

Form 10-Q

March 12, 2009

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C.  
20549

Form 10-Q

Quarterly Report Pursuant to Section 13 or 15(d)  
of the Securities Exchange Act of 1934

For 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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TABLE OF CONTENTS

	Page
<u>Part I. Financial Information</u>	
<u>Item 1. Financial Statements - Third Quarter - Fiscal 2009:</u>	3
<u>Condensed Consolidated Balance Sheets (unaudited)</u>	3
<u>January 31, 2009 and April 30, 2008</u>	
<u>Condensed Consolidated Statements of Operations (unaudited)</u>	4
<u>For the Three Months and Nine Months ended January 31, 2009 and 2008</u>	
<u>Condensed Consolidated Statement of Shareholders' Equity (unaudited)</u>	5
<u>For the Nine Months ended January 31, 2009</u>	
<u>Condensed Consolidated Statements of Cash Flows (unaudited)</u>	6
<u>For the Nine Months ended January 31, 2009 and 2008</u>	
<u>Notes to Condensed Consolidated Financial Statements (unaudited)</u>	8
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	17
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	32
<u>Item 4. Controls and Procedures</u>	33
<u>Part II. Other Information</u>	
<u>Item 1. Legal Proceedings</u>	33
<u>Item 1A. Risk Factors</u>	33
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	34
<u>Item 3. Defaults Upon Senior Securities</u>	34
<u>Item 4. Submission of Matters to a Vote of Security Holders</u>	34
<u>Item 5. Other Information</u>	34
<u>Item 6. Exhibits</u>	34
<u>Signatures</u>	35

## 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
<b>ASSETS</b>		
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
<b>TOTAL ASSETS</b>	<b>\$ 1,609,288</b>	<b>\$ 1,618,026</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>LIABILITIES</b>		
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
<b>TOTAL LIABILITIES</b>	<b>1,110,538</b>	<b>1,098,593</b>
<b>COMMITMENTS AND CONTINGENCIES (NOTE 6)</b>		
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
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$ 1,609,288</b>	<b>\$ 1,618,026</b>

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
<b>REVENUE</b>				
Real estate rentals	\$ 49,061	\$ 44,655	\$ 145,575	\$ 133,291
Tenant reimbursement	11,873	9,769	33,778	28,917
<b>TOTAL REVENUE</b>	<b>60,934</b>	<b>54,424</b>	<b>179,353</b>	<b>162,208</b>
<b>EXPENSES</b>				
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
<b>TOTAL EXPENSES</b>	<b>59,439</b>	<b>51,606</b>	<b>172,302</b>	<b>152,871</b>
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
<b>NET INCOME</b>	<b>1,378</b>	<b>2,983</b>	<b>6,259</b>	<b>8,800</b>
Dividends to preferred shareholders	(593)	(593)	(1,779)	(1,779)
<b>NET INCOME AVAILABLE TO COMMON SHAREHOLDERS</b>				
Earnings per common share from continuing operations	\$ .02	\$ .04	\$ .08	\$ .14
Earnings per common share from discontinued operations	.00	.00	.00	.00
<b>NET INCOME PER COMMON SHARE – BASIC AND DILUTED</b>	<b>\$ .02</b>	<b>\$ .04</b>	<b>\$ .08</b>	<b>\$ .14</b>

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
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
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
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
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)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
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

6

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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
<b>SUPPLEMENTARY SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES FOR THE PERIOD</b>		
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
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
<b>Cash paid during the period for:</b>		
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 paym