

INVESTORS REAL ESTATE TRUST

Form 10-K

June 29, 2016

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UNITED STATES

SECURITIES AND EXCHANGE CO INVESTORS REAL ESTATE TRUST AND SUBSIDIARIES

April 30, 2016

MISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended April 30, 2016

or

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

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

Commission File Number 001-35624

Investors Real Estate Trust

(Exact name of Registrant as specified in its charter)

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North Dakota  
(State or other jurisdiction of incorporation or organization) 45-0311232  
1400 31st Avenue SW, Suite 60 (IRS Employer Identification No.)  
Post Office Box 1988  
Minot, ND 58702-1988  
(Address of principal executive offices) (Zip code)

701-837-4738

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Common Shares of Beneficial Interest (no par value) - New York Stock Exchange

8.25% Series A Cumulative Redeemable Preferred Shares of Beneficial Interest (no par value) -

New York Stock Exchange

7.95% Series B Cumulative Redeemable Preferred Shares of Beneficial Interest (no par value) -

New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None

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Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes

No

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act.

Yes

No

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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 such filing requirements for the past 90 days.

Yes

No

Indicate by checkmark whether the Registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§229.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files).

Yes

No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting Company

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

Yes

No

The aggregate market value of the Registrant's outstanding common shares of beneficial interest held by non-affiliates of the Registrant as of October 31, 2015 was \$985,547,135 based on the last reported sale price on the New York Stock Exchange on October 31, 2015. For purposes of this calculation, the Registrant has assumed that its trustees and executive officers are affiliates.

The number of common shares of beneficial interest outstanding as of June 22, 2016, was 121,091,249.

References in this Annual Report on Form 10-K to the “Company,” “IRET,” “we,” “us,” or “our” include consolidated subsidiaries, unless the context indicates otherwise.

Documents Incorporated by Reference: Portions of IRET’s definitive Proxy Statement for its 2016 Annual Meeting of Shareholders to be held on September 20, 2016 are incorporated by reference into Part III (Items 10, 11, 12, 13 and 14) hereof.

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Special Note Regarding Forward-Looking Statements

Certain statements included in this Annual Report on Form 10-K and the documents incorporated into this document by reference are “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Such forward-looking statements include statements about our plans and objectives, including among other things, our future financial condition, anticipated capital expenditures, anticipated distributions and our belief that we have the liquidity and capital resources necessary to meet our known obligations and to make additional real estate acquisitions and capital improvements when appropriate to enhance long term growth. Forward-looking statements are typically identified by the use of terms such as “believe,” “expect,” “intend,” “project,” “plan,” “anticipate,” “potential,” “may,” “will,” “designed,” “estimate,” “should,” “continue” and other similar expressions. These statements indicate that we have used assumptions that are subject to a number of risks and uncertainties that could cause our actual results or performance to differ materially from those projected.

Although we believe that the expectations reflected in such forward-looking statements are based on reasonable assumptions, we can give no assurance that these expectations will prove to have been correct. Important factors that could cause actual results to differ materially from the expectations reflected in the forward-looking statements include:

- the economic health of the markets in which we own and operate multifamily and commercial properties, in particular the states of Minnesota and North Dakota, or other markets in which we may invest in the future;
- the economic health of our multifamily and commercial tenants;
- market rental conditions, including occupancy levels and rental rates, for multifamily and commercial properties;
- our ability to identify and secure additional properties that meet our criteria for investment;
- our ability to complete construction and lease-up of our development projects on schedule and on budget;
- our ability to sell our non-core properties on terms and pricing that are acceptable;
- the level and volatility of prevailing market interest rates and the pricing of our common shares of beneficial interest;
- changes in our operating expenses;

- financing risks, such as our inability to obtain debt or equity financing on favorable terms, or at all;
- compliance with applicable laws, including those concerning the environment and access by persons with disabilities; and
- the availability and cost of casualty insurance for losses.

Readers should carefully review our financial statements and the notes thereto, as well as the section entitled “Risk Factors” in Item 1A of this Annual Report on Form 10-K and the other documents we file from time to time with the Securities and Exchange Commission (“SEC”).

In light of these uncertainties, the events anticipated by our forward-looking statements might not occur. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. The foregoing review of factors that could cause our actual results to differ materially from those contemplated in any forward-looking statements included in this Annual Report on Form 10-K should not be construed as exhaustive.

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PART I

Item 1. Business

Overview

Investors Real Estate Trust (“we,” “us,” “IRET” or the “Company”) is a self-advised equity Real Estate Investment Trust, or REIT, organized under the laws of North Dakota. Since our formation in 1970, our business has consisted of owning and operating income-producing real estate properties. We are structured as an Umbrella Partnership Real Estate Investment Trust, or UPREIT, and we conduct our day-to-day business operations through our operating partnership, IRET Properties, a North Dakota Limited Partnership (“IRET Properties” or the “Operating Partnership”). Our investments mainly consist of multifamily and healthcare properties located primarily in the upper Midwest states of Minnesota and North Dakota. For the fiscal year ended April 30, 2016, our real estate investments in these two states accounted for 73.2% of our total gross revenue. Our principal executive office is located in Minot, North Dakota. We also have corporate offices in Minneapolis and St. Cloud, Minnesota, and additional property management offices located in the states where we own properties.

In January 2015, we announced our intention to sell substantially all of our office and retail properties. During the first quarter of fiscal year 2016, we classified as held for sale and discontinued operations 48 office properties, 17 retail properties and 1 healthcare property and reduced our number of reportable segments from five to three when our office and retail segments fell below the quantitative thresholds for reporting as reportable segments due to dispositions. During the last quarter of fiscal year 2016, we further reduced our number of reportable segments from three to two due to our industrial segment not meeting the quantitative thresholds.

As of April 30, 2016, we held for investment 99 multifamily properties containing 12,950 apartment units and having a total real estate investment amount net of accumulated depreciation of \$1.0 billion, and 47 commercial properties, consisting of healthcare, industrial, office and retail, containing approximately 2.9 million square feet of leasable space and having a total real estate investment amount net of accumulated depreciation of \$333.8 million. As of April 30, 2016, we held for sale 1 multifamily property, 36 commercial properties and 3 parcels of land. On June 6, 2016, we announced our plan to move towards becoming a pure play multifamily REIT and our intention to sell our remaining commercial properties.

Our multifamily leases are generally for a one-year term. Our commercial properties are typically leased to tenants under long-term lease arrangements. As of April 30, 2016, no individual tenant accounted for more than 10% of our total real estate rentals, although affiliated entities of Edgewood Vista together accounted for approximately 28.4% of our total commercial minimum rents for properties held for investment and for sale.



## Structure

We were organized under the laws of North Dakota on July 31, 1970, and have operated as a REIT under Sections 856-858 of the Internal Revenue Code of 1986, as amended (the “Internal Revenue Code”) since our formation. On February 1, 1997, we were restructured as an UPREIT, and have conducted our daily business operations primarily through IRET Properties.

IRET Properties was organized under the laws of North Dakota pursuant to an Agreement of Limited Partnership dated January 31, 1997. IRET Properties is principally engaged in acquiring, owning, operating and leasing real estate. The sole general partner of IRET Properties is IRET, Inc., a North Dakota corporation and our wholly-owned subsidiary. All of our assets (except for qualified REIT subsidiaries) and liabilities were contributed to IRET Properties, through IRET, Inc., in exchange for the sole general partnership interest in IRET Properties. As of April 30, 2016, IRET, Inc. owned an 88.1% interest in IRET Properties. The remaining ownership of IRET Properties is held by individual limited partners.

## Investment Strategy and Policies

Our business objective is to increase shareholder value by employing a disciplined investment strategy. This strategy is implemented by growing income-producing assets in desired geographical markets in real estate classes we believe will provide a consistent return on investment for our shareholders.

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We generally use available cash or short-term floating rate debt to acquire real estate. We then replace such cash or short-term floating rate debt with fixed-rate secured debt. In appropriate circumstances, we also may acquire one or more properties in exchange for our common shares of beneficial interest (“common shares”) or for limited partnership units of IRET Properties (“limited partnership units” or “units”), which are convertible, after the expiration of a minimum holding period of one year, into cash or, at our sole discretion, into our common shares on a one-to-one basis.

Our investment strategy involves investing in multifamily properties and commercial properties that are leased to single or multiple tenants, usually for five years or longer, and are located throughout the upper Midwest. Our commercial properties consist primarily of healthcare. Since January 2015, we have concentrated on multifamily and healthcare property acquisitions, and are now exploring the potential sale of our remaining commercial properties to eventually become a pure play multifamily REIT. We operate mainly within the states of North Dakota and Minnesota, although we also have real estate in Idaho, Iowa, Kansas, Montana, Nebraska, South Dakota, Wisconsin and Wyoming.

In order to implement our investment strategy we have certain investment policies. Our significant investment policies are as follows:

Investments in the securities of, or interests in, entities primarily engaged in real estate activities and other securities. While we are permitted to invest in the securities of other entities engaged in the ownership and operation of real estate, as well as other securities, we currently have no plans to make any investments in other securities.

Any policy, as it relates to investments in other securities, may be changed by a majority of the members of our Board of Trustees at any time without notice to or a vote of our shareholders.

Investments in real estate or interests in real estate. We currently own multifamily properties and/or commercial properties in ten states. We may invest in real estate, or interests in real estate, located anywhere in the United States. However, we currently plan to focus our investments in those states in which we already have property, with specific concentration in Iowa, Kansas, Minnesota, Montana, Nebraska, North Dakota and South Dakota. Similarly, we may invest in any type of real estate or interest in real estate, although we plan to focus new investments in multifamily properties.

It is not our policy to acquire assets primarily for capital gain through sale in the short term. Rather, it is our policy to acquire assets with an intention to hold such assets for at least a 10-year period. During the holding period, it is our policy to seek current income and capital appreciation through an increase in value of our real estate portfolio, as well as increased revenue as a result of higher rents.

Any policy, as it relates to investments in real estate or interests in real estate may be changed by our Board of Trustees at any time without notice to, or a vote of, our shareholders.

Investments in real estate mortgages. While not our primary business focus, from time to time we make loans to others that are secured by mortgages, liens or deeds of trust covering real estate. We have no restrictions on the type of property that may be used as collateral for a mortgage loan, except we may not invest in or make a mortgage loan without obtaining an appraisal concerning the value of the underlying property unless it is a loan insured or guaranteed by a government or a governmental agency. Unless otherwise approved by our Board of Trustees, it is our policy that we will not invest in mortgage loans on any one property if in the aggregate the total indebtedness on the property, including our mortgage, exceeds 85.0% of the property's appraised value. We can invest in junior mortgages without notice to, or the approval of, our shareholders. As of April 30, 2016 and 2015, we had no junior mortgages outstanding. We had no investments in real estate mortgages at April 30, 2016 and 2015.

Our policies relating to mortgage loans, including second mortgages, may be changed by our Board of Trustees at any time, or from time to time, without notice to, or a vote of, our shareholders.

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Policies Regarding Other Activities

Our current policies as they pertain to other activities are described as follows:

Distributions to shareholders and holders of limited partnership units. One of the requirements of the Internal Revenue Code for a REIT is that it distribute 90% of its net taxable income, excluding net capital gains, to its shareholders. There is a separate requirement to distribute net capital gains or pay a corporate level tax in lieu thereof. Our distributions meet these requirements. Our general policy has been to make cash distributions to our common shareholders and the holders of limited partnership units of approximately 65.0% to 90.0% of our funds from operations and to use the remaining funds for capital improvements or the purchase of additional properties. This policy may be changed at any time by our Board of Trustees without notice to, or approval of, our shareholders. Distributions to our common shareholders and unitholders in fiscal years 2016 and 2015 totaled approximately 68.4% and 81.3%, respectively, on a per share and unit basis of our funds from operations.

Issuing senior securities. On April 26, 2004, we issued 1,150,000 shares of 8.25% Series A Cumulative Redeemable Preferred Shares of Beneficial Interest (the "Series A preferred shares"), and on August 7, 2012, we issued 4,600,000 shares of 7.95% Series B Cumulative Redeemable Preferred Shares of Beneficial Interest (the "Series B preferred shares"). Depending on future interest rates and market conditions, we may issue additional preferred shares or other senior securities which would have dividend and liquidation preference over our common shares.

Borrowing money. We rely on borrowed funds in pursuing our investment objectives and goals. It has generally been our policy to borrow up to 65.0% to 75.0% of the appraised value of all new real estate acquired or developed. In the future, we expect this policy will reflect a more conservative approach of up to 50.0% to 65% of the appraised value of all new real estate acquired or developed. This policy concerning borrowed funds is vested solely with our Board of Trustees and can be changed by our Board of Trustees at any time, or from time to time, without notice to, or a vote of, our shareholders. Such policy is subject, however, to the limitation in our Fourth Restated Trustees' Regulations (Bylaws) ("Bylaws"), which provides that unless approved by a majority of the independent members of our Board of Trustees and disclosed to our shareholders in our next quarterly report along with justification for such excess, we may not borrow in excess of 300.0% of our total Net Assets (as such term is used in our Bylaws, which usage is not in accordance with generally accepted accounting principles ("GAAP")). "Net Assets" means our total assets at cost before deducting depreciation or other non-cash reserves, less total liabilities. Our Bylaws do not impose any limitation on the amount that we may borrow against any one particular property. As of April 30, 2016, our ratio of total indebtedness to total real estate investments was 63.6% while our ratio of total indebtedness as compared to our Net Assets (computed in accordance with our Bylaws) was 88.2%.

Offering securities in exchange for property. Our organizational structure allows us to issue shares and to offer limited partnership units of IRET Properties in exchange for real estate. The limited partnership units are convertible into cash, or, at our option, common shares on a one-for-one basis after a minimum one-year holding period. All limited partnership units receive the same cash distributions as those paid on common shares. Limited partners are not entitled

to vote on any matters affecting us until their limited partnership units are converted into common shares.

Our Declaration of Trust, as amended (our “Declaration of Trust”), does not contain any restrictions on our ability to offer limited partnership units of IRET Properties in exchange for property. As a result, any decision to do so is vested solely in our Board of Trustees. This policy may be changed at any time, or from time to time, without notice to, or a vote of, our shareholders. For the three most recent fiscal years ended April 30, we have issued the following limited partnership units of IRET Properties in exchange for properties:

|                                       | (in thousands) |        |          |
|---------------------------------------|----------------|--------|----------|
|                                       | 2016           | 2015   | 2014     |
| Limited partnership units issued      | 2,559          | 89     | 361      |
| Value at issuance, net of issue costs | \$ 18,226      | \$ 800 | \$ 3,480 |

Acquiring or repurchasing shares. As a REIT, it is our intention to invest only in real estate assets. Our Declaration of Trust does not prohibit the acquisition or repurchase of our common or preferred shares or other securities so long as such activity does not prohibit us from operating as a REIT under the Internal Revenue Code. Any policy regarding the acquisition or repurchase of shares or other securities is vested solely in our Board of Trustees and may be changed at any time, or from time to time, without notice to, or a vote of, our shareholders.

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During fiscal year 2016, our Board of Trustees authorized a share repurchase program of up to \$50.0 million worth of our common shares, under which we repurchased 4.6 million of our outstanding common shares on the open market. We did not repurchase any of our preferred shares.

Making loans to other persons. Our organizational structure allows us to make loans to other persons, subject to certain conditions and subject to our election to be taxed as a REIT. All loans must be secured by real property or limited partnership units of IRET Properties. We had no investments in real estate mortgages at April 30, 2016 and 2015.

Investing in the securities of other issuers for the purpose of exercising control. We have not engaged in, and we are not currently engaging in, investment in the securities of other issuers for the purpose of exercising control. Our Declaration of Trust does not impose any limitation on our ability to invest in the securities of other issuers for the purpose of exercising control. Any decision to do so is vested solely in our Board of Trustees and may be changed at any time, or from time to time, without notice to, or a vote of, our shareholders.

## Information about Segments

We currently operate in two reportable real estate segments: multifamily and healthcare. For further information on these segments and other related information, see Note 11 of our consolidated financial statements as well as Item 2 Properties and Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations of this Annual Report on Form 10-K.

## Employees

As of April 30, 2016, we had 483 employees, of whom 432 were full-time and 54 were part-time. 58 of these employees were corporate staff located in our Minot, North Dakota and Minneapolis, Minnesota offices, and 428 were property management employees based either at our properties or in local property management offices.

## Environmental Matters and Government Regulation

Under various federal, state and local laws, ordinances and regulations relating to the protection of the environment, a current or previous owner or operator of real estate may be liable for the costs of removal or remediation of certain hazardous or toxic substances released at a property, and may be held liable to a governmental entity or to third parties for property damage, personal injuries and investigation and clean-up costs incurred in connection with any contamination. In addition, some environmental laws create a lien on a contaminated site in favor of the government for damages and costs it incurs in connection with the contamination. These laws often impose liability without regard to whether the current owner was responsible for, or even knew of, the presence of such substances. It is generally our policy to obtain from independent environmental consultants a "Phase I" environmental audit (which involves visual inspection but not soil or groundwater analysis) on all properties that we seek to acquire. We do not believe that any of our properties are subject to any material environmental contamination. However, no assurances can be given that:

- a prior owner, operator or occupant of the properties we own or the properties we intend to acquire did not create a material environmental condition not known to us, which might have been revealed by more in-depth study of the properties; and
- future uses or conditions (including, without limitation, changes in applicable environmental laws and regulations) will not result in the imposition of environmental liability upon us.

In addition to laws and regulations relating to the protection of the environment, many other laws and governmental regulations are applicable to our properties, and changes in the laws and regulations, or in their interpretation by agencies and the courts, occur frequently. Under the Americans with Disabilities Act of 1990 (the "ADA"), all places of public accommodation are required to meet certain federal requirements related to access and use by disabled persons. In addition, the Fair Housing Amendments Act of 1988 (the "FHAA") requires apartment communities first occupied after March 13, 1990, to be accessible to the handicapped. Non-compliance with the ADA or the FHAA could result in the imposition of fines or an award of damages to private litigants. We believe that those of our properties to which the ADA and/or FHAA apply are substantially in compliance with present ADA and FHAA requirements.

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Competition

Investing in and operating real estate is a very competitive business. We compete with other owners and developers of multifamily and commercial properties to attract tenants to our properties. Ownership of competing properties is diversified among other REITs, financial institutions, individuals and public and private companies who are actively engaged in this business. Our multifamily properties compete directly with other rental apartments, as well as with condominiums and single-family homes that are available for rent or purchase in the areas in which our properties are located. Our commercial properties compete with other commercial properties for tenants. Additionally, we compete with other real estate investors, including other REITs, pension and investment funds, partnerships and investment companies, to acquire properties. This competition affects our ability to acquire properties we want to add to our portfolio and the price we pay for acquisitions. We do not believe we have a dominant position in any of the geographic markets in which we operate, but some of our competitors may be dominant in selected markets. Many of our competitors have greater financial and management resources than we have. We believe, however, that the geographic diversity of our investments, the experience and abilities of our management, the quality of our assets and the financial strength of many of our commercial tenants affords us some competitive advantages that have in the past and will in the future allow us to operate our business successfully despite the competitive nature of our business.

Corporate Governance

Our Board of Trustees has adopted various policies and initiatives to strengthen our corporate governance and increase the transparency of financial reporting. Each of the committees of the Board of Trustees operates under written charters, and our independent trustees meet regularly in executive sessions at which only the independent trustees are present. The Board of Trustees has adopted a Code of Conduct applicable to trustees, officers and employees; adopted a Code of Ethics for Senior Financial Officers; and has established processes for shareholders and all interested parties for communication with the Board of Trustees.

Additionally, our Audit Committee has established procedures for the receipt, retention and treatment of complaints regarding accounting, internal accounting controls or auditing matters, including procedures for the confidential, anonymous submission by our employees of concerns regarding accounting or auditing matters. The Audit Committee also maintains a policy requiring Audit Committee approval of all audit and non-audit services provided to us by our independent registered public accounting firm.

We will disclose any amendment to our Code of Ethics for Senior Financial officers on our website. In the event we waive compliance with the Code of Ethics or Code of Conduct by any of our trustees or officers, we will disclose such waiver in a Form 8-K filed within four business days.



Website and Available Information

Our internet address is [www.iret.com](http://www.iret.com). We make available, free of charge, through the “SEC filings” tab under the Investor Relations/Financial Reporting section of our website, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, including exhibits and amendments to such reports, filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after such reports are filed with or furnished to the SEC. Current copies of our Code of Conduct; Code of Ethics for Senior Financial Officers; and Charters for the Audit, Compensation, Executive and Nominating and Governance Committees of our Board of Trustees are also available on our website under the “Corporate Governance” tab under the Investor Relations/Corporate Overview section of our website. Copies of these documents are also available to shareholders upon request addressed to the Secretary at Investors Real Estate Trust, P.O. Box 1988, Minot, North Dakota 58702-1988. Information on our website does not constitute part of this Annual Report on Form 10-K.

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Item 1A. Risk Factors

Risks Related to Our Properties and Business

Our performance and share value are subject to risks associated with the real estate industry. Our results of operations and financial condition, the value of our real estate assets, and the value of an investment in us are subject to the risks normally associated with the ownership and operation of real estate properties. These risks include, but are not limited to, the following factors which, among others, may adversely affect the income generated by our properties:

- downturns in national, regional and local economic conditions (particularly increases in unemployment);
- competition from other multifamily and commercial properties;
- local real estate market conditions, such as oversupply or reduction in demand for multifamily and commercial space;
- changes in interest rates and availability of attractive financing;
- declines in the economic health and financial condition of our tenants and our ability to collect rents from our tenants;
- vacancies, changes in market rental rates and the need periodically to repair, renovate and re-lease space;
- increased operating costs, including real estate taxes, state and local taxes, insurance expense, utilities, and security costs;
- significant expenditures associated with each investment, such as debt service payments, real estate taxes and insurance and maintenance costs, which are generally not reduced when circumstances cause a reduction in revenues from a property;
- weather conditions, civil disturbances, natural disasters, terrorist acts or acts of war which may result in uninsured or underinsured losses; and

- decreases in the underlying value of our real estate.

The federal conservatorship of Fannie Mae and Freddie Mac and related efforts, along with any changes in laws and regulations affecting the relationship between Fannie Mae and Freddie Mac and the U.S. Government, may adversely affect our business. We depend on the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac) for financing for many of our multifamily properties. Fannie Mae and Freddie Mac are U.S. Government-sponsored entities, or GSEs, but their guarantees are not backed by the full faith and credit of the United States. In September 2008, Fannie Mae and Freddie Mac were placed in federal conservatorship. The problems faced by Fannie Mae and Freddie Mac resulting in their being placed into federal conservatorship stirred debate among some federal policy makers regarding the continued role of the U.S. Government in providing liquidity for the residential mortgage market. It is unclear how future legislation may impact Fannie Mae and Freddie Mac's involvement in multifamily financing. The scope and nature of the actions that the U.S. Government may undertake with respect to the future of Fannie Mae and Freddie Mac are unknown and will continue to evolve. It is possible that each of Fannie Mae and Freddie Mac could be dissolved and the U.S. Government could decide to stop providing liquidity support of any kind to the multifamily mortgage market. Future legislation could further change the relationship between Fannie Mae and Freddie Mac and the U.S. Government, and could also nationalize or eliminate such GSEs entirely. Any law affecting these GSEs may create market uncertainty and have the effect of reducing the credit available for financing multifamily properties. The loss or reduction of this important source of credit would be likely to result in higher loan costs for us, and could result in inability to borrow or refinance maturing debt, all of which could materially adversely affect our business, operations and financial condition.

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Our property acquisition activities subject us to various risks which could adversely affect our operating results. We have acquired in the past and intend to continue to pursue the acquisition of properties and portfolios of properties, including large portfolios that could increase our size and result in alterations to our capital structure. Our acquisition activities and their success are subject to numerous risks, including, but not limited to:

- even if we enter into an acquisition agreement for a property, it is subject to customary closing conditions, including completion of due diligence investigations, and we may be unable to complete that acquisition after making a non-refundable deposit and incurring other acquisition-related costs;
- we may be unable to obtain financing for acquisitions on favorable terms or at all;
- acquired properties may fail to perform as expected;
- the actual costs of repositioning or redeveloping acquired properties may be greater than our estimates; and
- we may be unable to quickly and efficiently integrate new acquisitions into our existing operations.

These risks could have an adverse effect on our results of operations and financial condition and the amount of cash available for payment of distributions.

Acquired properties may subject us to unknown liabilities which could adversely affect our operating results. We may acquire properties subject to liabilities without any recourse, or with only limited recourse, against prior owners or other third parties with respect to unknown liabilities. As a result, if liability were asserted against us based upon ownership of these properties, we might have to pay substantial sums to settle or contest it, which could adversely affect our results of operations and cash flows. Unknown liabilities with respect to acquired properties might include liabilities for clean-up of undisclosed environmental contamination; claims by tenants, vendors or other persons against the former owners of the properties; liabilities incurred in the ordinary course of business; and claims for indemnification by general partners, directors, officers and others indemnified by the former owners of the properties.

Our geographic concentration in Minnesota and North Dakota may result in losses due to our significant exposure to the effects of economic and real estate conditions in those markets. For the fiscal year ended April 30, 2016, we received approximately 73.2% of our gross revenue from properties in Minnesota and North Dakota. As a result of this concentration, we are subject to substantially greater risk than if our investments were more geographically dispersed. Specifically, we are more significantly exposed to the effects of economic and real estate conditions in those particular markets, such as building by competitors, local vacancy and rental rates and general levels of employment and economic activity. To the extent that weak economic or real estate conditions affect Minnesota and/or North Dakota more severely than other areas of the country, our financial performance could be negatively impacted.

If we are not able to renew leases or enter into new leases on favorable terms or at all as our existing leases expire, our revenue, operating results and cash flows will be reduced. We may be unable to renew leases with our existing tenants or enter into new leases with new tenants due to economic and other factors as our existing leases expire or are terminated prior to the expiration of their current terms. As a result, we could lose a significant source of revenue while remaining responsible for the payment of our obligations. In addition, even if we were able to renew existing leases or enter into new leases in a timely manner, the terms of those leases may be less favorable to us than the terms of expiring leases, because the rental rates of the renewal or new leases may be significantly lower than those of the expiring leases, or tenant installation costs, including the cost of required renovations or concessions to tenants, may be significant. If we are unable to enter into lease renewals or new leases on favorable terms or in a timely manner for all or a substantial portion of space that is subject to expiring leases, our revenue, operating results and cash flows will be adversely affected. As a result, our ability to make distributions to the holders of our shares of beneficial interest may be adversely affected. As of April 30, 2016, approximately 1,189 of our 12,974 apartment units, or 9.2%, were vacant. Approximately 159,000 square feet, or 10.6% of our healthcare property square footage, was vacant. As of April 30, 2016, leases covering approximately 8.4% of our healthcare properties net rentable square footage will expire in fiscal year 2017, 15.0% in fiscal year 2018, 14.2% in fiscal year 2019, 4.9% in fiscal year 2020 and 7.9% in fiscal year 2021, assuming that none of the tenants exercise future renewal options and excluding the effect of early renewals completed on existing leases.

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We face potential adverse effects from commercial tenant bankruptcies or insolvencies. The bankruptcy or insolvency of our commercial tenants may adversely affect the income produced by our properties. If a tenant defaults, we may experience delays and incur substantial costs in enforcing our rights as landlord. If a tenant files for bankruptcy, we cannot evict the tenant solely because of such bankruptcy. A court, however, may authorize the tenant to reject and terminate its lease with us. In such a case, our claim against the tenant for unpaid future rent would be subject to a statutory cap that might be substantially less than the remaining rent actually owed under the lease, and it is unlikely that a bankrupt tenant would pay in full amounts it owes us under a lease. This shortfall could adversely affect our cash flow and results of operations. If a tenant experiences a downturn in its business or other types of financial distress, it may be unable to make timely rental payments. Under some circumstances, we may agree to partially or wholly terminate the lease in advance of the termination date in consideration for a lease termination fee that is less than the agreed rental amount. Additionally, without regard to the manner in which a lease termination occurs, we are likely to incur additional costs in the form of tenant improvements and leasing commissions in our efforts to lease the space to a new tenant, as well as possibly lower rental rates reflective of declines in market rents.

Because real estate investments are generally illiquid, and various factors limit our ability to dispose of assets, we may not be able to sell properties when appropriate. Real estate investments are relatively illiquid and, therefore, we have limited ability to change our portfolio of properties quickly in response to our strategic plan and changes in economic or other conditions. In addition, the prohibitions under the federal income tax laws on REITs holding property for sale and related regulations may affect our ability to sell properties. Under certain circumstances, the Internal Revenue Code imposes certain penalties on a REIT that sells property held for less than two years and limits the number of properties it can sell in a given year. Our ability to dispose of assets may also be limited by constraints on our ability to utilize disposition proceeds to make acquisitions on financially attractive terms, and the requirement that we take additional impairment charges on certain assets. More specifically, we are required to distribute or pay tax on all capital gains generated from the sale of assets, and, in addition, a significant number of our properties were acquired using limited partnership units of IRET Properties, our operating partnership, and are subject to certain agreements which restrict our ability to sell such properties in transactions that would create current taxable income to the former owners. As a result, we are motivated to structure the sale of these assets as tax-free exchanges. To accomplish this, we must identify attractive re-investment opportunities. These considerations impact our decisions on whether or not to dispose of certain of our assets.

Capital markets and economic conditions can materially affect our financial condition and results of operations, the value of our equity securities, and our ability to sustain payment of our distribution at current levels. Many factors affect the value of our equity securities and our ability to make or maintain at current levels distributions to the holders of our shares of beneficial interest, including the state of the capital markets and the economy, which in recent years have negatively affected substantially all businesses, including ours. Demand for office, industrial, and retail space has declined nationwide due to bankruptcies, downsizing, layoffs and cost cutting. The availability of credit has been and may in the future again be adversely affected by illiquid credit markets. Regulatory pressures and the burden of troubled and uncollectible loans led some lenders and institutional investors to reduce, and in some cases, cease to provide funding to borrowers. If these market conditions recur, they may limit our ability and the ability of our tenants to timely refinance maturing liabilities and access the capital markets to meet liquidity needs, which may materially affect our financial condition and results of operations and the value of our equity securities. Declining rental revenues from our properties due to persistent negative economic conditions may have a material adverse effect on our ability to make distributions to the holders of our shares of beneficial interest. In fiscal years 2016 and 2015, distributions to our common shareholders and unitholders of IRET Properties in cash and common shares pursuant to our Distribution Reinvestment and Share Purchase Plan (DRIP) totaled approximately 107.2% and 61.9%, respectively, of our net cash

provided by operating activities.

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Inability to manage rapid growth effectively may adversely affect our operating results. We have experienced significant growth at various times in the past, principally through the acquisition of additional real estate properties. Subject to our ability to raise equity capital and issue limited partnership units of IRET Properties and identify suitable investment properties, we intend to continue our acquisition of real estate properties. Effective management of rapid growth presents challenges, including:

- the need to expand our management team and staff;
  
- the need to enhance internal operating systems and controls; and
  
- the ability to consistently achieve targeted returns on individual properties.

We may not be able to maintain similar rates of growth in the future or manage our growth effectively. Additionally, an inability to make accretive property acquisitions may adversely affect our ability to increase our net income. The acquisition of additional real estate properties is critical to our ability to increase our net income. If we are unable to make real estate acquisitions on terms that meet our financial and strategic objectives, whether due to market conditions, a changed competitive environment or unavailability of capital, our ability to increase our net income may be materially and adversely affected. Our failure to do so may have a material adverse effect on our financial condition and results of operations and ability to make distributions to the holders of our shares of beneficial interest.

Competition may negatively impact our earnings. We compete with many kinds of institutions, including other REITs, private partnerships, individuals, pension funds and banks, for tenants and investment opportunities. Many of these institutions are active in the markets in which we invest and have greater financial and other resources that may be used to compete against us. With respect to tenants, this competition may affect our ability to lease our properties, the price at which we are able to lease our properties and the cost of required renovations or tenant improvements. With respect to acquisition and development investment opportunities, this competition may cause us to pay higher prices for new properties than we otherwise would have paid, or may prevent us from purchasing a desired property at all.

High leverage on our overall portfolio may result in losses. As of April 30, 2016, our ratio of total indebtedness to total Net Assets (as defined in our Bylaws, which usage is not in accordance with GAAP) was approximately 88.2%. “Net Assets” under our Bylaws mean our total assets at cost before deducting depreciation or other non-cash reserves, less total liabilities. As of April 30, 2015 and 2014, our percentage of total indebtedness to total Net Assets was approximately 97.8% and 93.3%, respectively. Under our Bylaws, we may increase our total indebtedness up to 300.0% of our Net Assets, or by an additional approximately \$3.1 billion. There is no limitation on the increase that may be permitted if approved by a majority of the independent members of our Board of Trustees and disclosed to the holders of our securities in the next quarterly report, along with justification for any excess.



This amount of leverage may expose us to cash flow problems if rental income decreases. Under those circumstances, in order to pay our debt obligations we might be required to sell properties at a loss or be unable to make distributions or decrease distributions to holders of our shares of beneficial interest. A failure to pay amounts due may result in a default on our obligations and the loss of the property through foreclosure. Additionally, our degree of leverage could adversely affect our ability to obtain additional financing and may have an adverse effect on the market price of our common shares.

Our inability to renew, repay or refinance our debt may result in losses. We incur a significant amount of debt in the ordinary course of our business and in connection with acquisitions of real properties. In addition, because we have a limited ability to retain earnings as a result of the REIT distribution requirements, we will generally be required to refinance debt that matures with additional debt or equity. We are subject to the normal risks associated with debt financing, including the risks that:

- our cash flow will be insufficient to meet required payments of principal and interest;
- we will not be able to renew, refinance or repay our indebtedness when due; and
- the terms of any renewal or refinancing will be less favorable than the terms of our current indebtedness.

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These risks increase when credit markets are tight. In general, when the credit markets are constrained, we may encounter resistance from lenders when we seek financing or refinancing for properties or proposed acquisitions, and the terms of such financing or refinancing are likely to be less favorable to us than the terms of our current indebtedness.

We anticipate that only a small portion of the principal of our debt will be repaid prior to maturity, and we will need to refinance a significant portion of our outstanding debt as it matures. We cannot guarantee that any refinancing of debt with other debt will be possible on terms that are favorable or acceptable to us. If we cannot refinance, extend or pay principal payments due at maturity with the proceeds of other capital transactions, such as new equity capital, our cash flows may not be sufficient in all years to repay debt as it matures. Additionally, if we are unable to refinance our indebtedness on acceptable terms, or at all, we may be forced to dispose of one or more of our properties on disadvantageous terms, which may result in losses to us. These losses could have a material adverse effect on us, our ability to make distributions to the holders of our shares of beneficial interest and our ability to pay amounts due on our debt. Furthermore, if a property is mortgaged to secure payment of indebtedness and we are unable to meet mortgage payments or refinance the debt at maturity, the mortgagee could foreclose upon the property, appoint a receiver and receive an assignment of rents and leases or pursue other remedies, including taking ownership of the property, all with a consequent loss of revenues and asset value. Foreclosures could also create taxable income without accompanying cash proceeds, thereby hindering our ability to meet the REIT distribution requirements of the Internal Revenue Code.

As of April 30, 2016, approximately 17.0% of our mortgage debt, including mortgage debt on properties held for sale, is due for repayment in fiscal year 2017. As of April 30, 2016, we had approximately \$150.7 million of principal payments and approximately \$38.8 million of interest payments due in fiscal year 2017 on fixed and variable-rate mortgages secured by our real estate. Additionally, as of April 30, 2016, we had \$17.5 million outstanding under our \$100.0 million multi-bank line of credit, which has a maturity date of September 1, 2017.

The cost of our indebtedness may increase. Portions of our fixed-rate indebtedness incurred for past property acquisitions come due on a periodic basis. Rising interest rates could limit our ability to refinance this existing debt when it matures, and would increase our interest costs, which could have a material adverse effect on us, our ability to make distributions to the holders of our shares of beneficial interest and our ability to pay amounts due on our debt. In addition, we have incurred, and we expect to continue to incur, indebtedness that bears interest at a variable rate. As of April 30, 2016, \$196.8 million, or approximately 22.2%, of the principal amount of our total mortgage indebtedness was subject to variable interest rates agreements, and approximately 91.2% of the principal amount of our total construction loan indebtedness was subject to variable interest rates. Additionally, our \$100.0 million multi-bank line of credit bears interest at a rate of 1.25% over the Wall Street Journal Prime Rate, with a floor of 4.75% and a cap of 8.65%. If short-term interest rates rise, our debt service payments on adjustable rate debt would increase, which would lower our net income and could decrease our distributions to the holders of our shares of beneficial interest.

Our current or future insurance may not protect us against possible losses. We carry comprehensive liability, fire, extended coverage and rental loss insurance with respect to our properties at levels that we believe to be adequate and comparable to coverage customarily obtained by owners of similar properties. However, the coverage limits of our

current or future policies may be insufficient to cover the full cost of repair or replacement of all potential losses. Moreover, this level of coverage may not continue to be available in the future or, if available, may be available only at unacceptable cost or with unacceptable terms.

Additionally, there may be certain extraordinary losses, such as those resulting from civil unrest, terrorism or environmental contamination, that are not generally, or fully, insured against because they are either uninsurable or not economically insurable. For example, we do not currently carry insurance against losses as a result of environmental contamination. Should an uninsured or underinsured loss occur to a property, we could be required to use our own funds for restoration or lose all or part of our investment in, and anticipated revenues from, the property. In any event, we would continue to be obligated on any mortgage indebtedness on the property. Any loss could have a material adverse effect on us, our ability to make distributions to the holders of our shares of beneficial interest and our ability to pay amounts due on our debt.

In addition, in most cases we have to renew our insurance policies on an annual basis and negotiate acceptable terms for coverage, exposing us to the volatility of the insurance markets, including the possibility of rate increases. Any material increase in insurance rates or decrease in available coverage in the future could adversely affect our business and financial condition and results of operations, which could cause a decline in the market value of our securities.

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We have significant investments in healthcare properties and adverse trends in healthcare provider operations may negatively affect our lease revenues from these properties. We have acquired a significant number of specialty healthcare properties (including senior housing). As of April 30, 2016, our real estate portfolio held for investment included 31 healthcare properties, with a total real estate investment amount, net of accumulated depreciation, of \$254.4 million, or approximately 18.6% of the total real estate investment amount, net of accumulated depreciation, of our entire real estate portfolio held for investment. Additionally, as of April 30, 2016, we held for sale 34 senior housing properties. The healthcare industry continues to experience changes in the demand for, and methods of delivery of, healthcare services; changes in third-party reimbursement policies; significant unused capacity in certain areas, which has created substantial competition for patients among healthcare providers in those areas; continuing pressure by private and governmental payors to reduce payments to providers of services; and increased scrutiny of billing, referral and other practices by federal and state authorities. Sources of revenue for our healthcare property tenants may include the federal Medicare program, state Medicaid programs, private insurance carriers and health maintenance organizations, among others. Efforts by such payors to reduce healthcare costs will likely continue, which may result in reductions or slower growth in reimbursement for certain services provided by some of our tenants. These factors may adversely affect the economic performance of some or all of our healthcare services tenants and, in turn, our lease revenues. In addition, if we or our tenants terminate the leases for these properties, or our tenants lose their regulatory authority to operate such properties, we may not be able to locate suitable replacement tenants to lease the properties for their specialized uses. Alternatively, we may be required to spend substantial amounts to adapt the properties to other uses. Any loss of revenues and/or additional capital expenditures occurring as a result could hinder our ability to make distributions to the holders of our shares of beneficial interest.

New federal healthcare reform laws may adversely affect the operators and tenants of our healthcare (including senior housing) properties. In March 2010, the President signed into law The Patient Protection and Affordable Care Act (“PPACA”) and The Health Care and Education and Reconciliation Act of 2010 (the “Reconciliation Act”), which amends the PPACA (collectively, the “Health Care Reform Acts”). The Health Care Reform Acts contain various provisions that may affect us directly as an employer, and that may affect the operators and tenants of healthcare (including senior housing) properties. While some of the provisions of these laws may have a positive impact on operators’ or tenants’ revenues, by increasing coverage of uninsured individuals, other provisions may have a negative effect on operator or tenant reimbursements, for example by changing the “market basket” adjustments for certain types of healthcare facilities. The Health Care Reform Acts also enhance certain fraud and abuse penalty provisions that could apply to our operators and tenants in the event of one or more violations of complex federal healthcare laws. Additionally, provisions in the Health Care Reform Acts may affect the health coverage that we and our operators and tenants provide to our respective employees. We currently cannot predict the impact that this far-reaching, landmark legislation will have on our business and the businesses and operations of our tenants. Any loss of revenues and/or additional expenditures incurred by us or by operators and tenants of our properties as a result of the Health Care Reform Acts could adversely affect our cash flow and results of operations and have a material adverse effect on our ability to make distributions to the holders of our shares of beneficial interest.

Adverse changes in applicable laws may affect our potential liabilities relating to our properties and operations. Increases in real estate taxes and income, service and transfer taxes cannot always be passed through to all tenants in the form of higher rents. As a result, any increase may adversely affect our cash available for distribution, our ability to make distributions to the holders of our shares of beneficial interest and our ability to pay amounts due on our debt. Similarly, changes in laws that increase the potential liability for environmental conditions existing on properties, that increase the restrictions on discharges or other conditions or that affect development, construction and safety requirements may result in significant unanticipated expenditures that could have a material adverse effect on

us, our ability to make distributions to the holders of our shares of beneficial interest and our ability to pay amounts due on our debt. In addition, future enactment of rent control or rent stabilization laws or other laws regulating multifamily properties may reduce rental revenues or increase operating costs.

Complying with laws benefiting disabled persons or other safety regulations and requirements may affect our costs and investment strategies. Federal, state and local laws and regulations designed to improve disabled persons' access to and use of buildings, including the Americans with Disabilities Act of 1990, may require modifications to, or restrict renovations of, existing buildings. Additionally, these laws and regulations may require that structural features be added to buildings under construction. Legislation or regulations that may be adopted in the future may impose further burdens or restrictions on us with respect to improved access to, and use of these buildings by, disabled persons. Noncompliance could result in the imposition of fines by government authorities or the award of damages to private litigants. The costs

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of complying with these laws and regulations may be substantial, and limits or restrictions on construction, or the completion of required renovations, may limit the implementation of our investment strategy or reduce overall returns on our investments. This could have an adverse effect on us, our ability to make distributions to the holders of our shares of beneficial interest and our ability to pay amounts due on our debt. Our properties are also subject to various other federal, state and local regulatory requirements, such as state and local fire and life safety requirements. If we fail to comply with these requirements, we could incur fines or private damage awards. Additionally, in the event that existing requirements change, compliance with future requirements may require significant unanticipated expenditures that may adversely affect our cash flow and results of operations.

We may be responsible for potential liabilities under environmental laws. Under various federal, state and local laws, ordinances and regulations, we, as a current or previous owner or operator of real estate may be liable for the costs of removal of, or remediation of, hazardous or toxic substances in, on, around or under that property. These laws may impose liability without regard to whether we knew of, or were responsible for, the presence of the hazardous or toxic substances. The presence of these substances, or the failure to properly remediate any property containing these substances, may adversely affect our ability to sell or rent the affected property or to borrow funds using the property as collateral. In arranging for the disposal or treatment of hazardous or toxic substances, we may also be liable for the costs of removal of, or remediation of, these substances at that disposal or treatment facility, whether or not we own or operate the facility. In connection with our current or former ownership (direct or indirect), operation, management, development and/or control of real properties, we may be potentially liable for removal or remediation costs with respect to hazardous or toxic substances at those properties, as well as certain other costs, including governmental fines and claims for injuries to persons and property. A finding of liability for an environmental condition as to any one or more properties could have a material adverse effect on us, our ability to make distributions to the holders of our shares of beneficial interest and our ability to pay amounts due on our debt.

Environmental laws also govern the presence, maintenance and removal of asbestos, and require that owners or operators of buildings containing asbestos properly manage and maintain the asbestos; notify and train those who may come into contact with asbestos; and undertake special precautions if asbestos would be disturbed during renovation or demolition of a building. Indoor air quality issues may also necessitate special investigation and remediation. These air quality issues can result from inadequate ventilation, chemical contaminants from indoor or outdoor sources, or biological contaminants such as molds, pollen, viruses and bacteria. Such asbestos or air quality remediation programs could be costly, necessitate the temporary relocation of some or all of the property's tenants or require rehabilitation of an affected property.

It is generally our policy to obtain a Phase I environmental study on each property that we seek to acquire. A Phase I environmental study generally includes a visual inspection of the property and the surrounding areas, an examination of current and historical uses of the property and the surrounding areas and a review of relevant state and federal documents, but does not involve invasive techniques such as soil and ground water sampling. If the Phase I indicates any possible environmental problems, our policy is to order a Phase II study, which involves testing the soil and ground water for actual hazardous substances. However, Phase I and Phase II environmental studies, or any other environmental studies undertaken with respect to any of our current or future properties, may not reveal the full extent of potential environmental liabilities. We currently do not carry insurance for environmental liabilities.

We may be unable to retain or attract qualified management. We are dependent upon our senior officers for essentially all aspects of our business operations. Our senior officers have experience in the specialized business segments in which we operate, and the loss of them would likely have a material adverse effect on our operations, and could adversely impact our relationships with lenders, industry personnel and potential tenants. We do not have employment contracts with any of our senior officers. As a result, any senior officer may terminate his or her relationship with us at any time, without providing advance notice. If we fail to manage effectively a transition to new personnel, or if we fail to attract and retain qualified and experienced personnel on acceptable terms, our business and prospects could be harmed. The location of our company headquarters in Minot, North Dakota, may make it more difficult and expensive to attract, relocate and retain current and future officers and employees.

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The level of oil and gas drilling in the Bakken Shale Formation has declined substantially and has adversely impacted our apartments in western North Dakota. This condition could persist for an extended period of time. We have ownership interests in three apartment projects totaling 477 units in Williston, ND, the heart of the Bakken Shale Formation. The economy of Williston is significantly dependent on the oil and gas industry. To date we have experienced significant increased vacancy and a material decrease in our rents. We also have ownership interests in 1,039 units in Minot, ND that to a lesser extent have experienced declines in occupancy and rent rates. Oil drilling and production are impacted by factors beyond our control, including: the demand for and prices of crude oil and natural gas; environmental regulation and enforcement; producers' finding and development costs of reserves; producers' desire and ability to obtain necessary permits in a timely and economic manner; oil and natural gas field characteristics and production performance; and transportation and capacity constraints on natural gas, crude oil and natural gas liquids pipelines from the producing areas. Oil field activity could decline further in North Dakota as a result of any or all of these factors, which could have a material adverse effect on our western North Dakota properties. In addition, we have various mortgage loans on assets in western North Dakota with various operating income covenant requirements. Compliance with such covenants may be at risk if the material reductions in rents and vacancies continue. We do not believe these mortgage loans to be material to our operations, but if we are unable to comply with such covenants, we could be required to pay down such loans or seek a remedy with an escrow to relieve debt service payments.

Risks related to properties under construction or development may adversely affect our financial performance. Our development and construction activities involve significant risks that may adversely affect our cash flow and results of operations, and consequently our ability to make distributions to the holders of our shares of beneficial interest and our ability to pay amounts due on our debt. In connection with our renovation, redevelopment, development and related construction activities, we may be unable to obtain, or may suffer delays in obtaining, necessary zoning, land-use, building, occupancy and other required governmental permits and authorizations. These denials or delays could result in increased costs or our abandonment of projects. In addition, we may not be able to obtain financing on favorable terms, which may prevent us from proceeding with our development activities, and we may not be able to complete construction and lease-up of a property on schedule, which could result in increased debt service expense or construction costs. Additionally, the time required for development, construction and lease-up means that we may have to wait years for significant cash returns. Because we are required to make cash distributions to our shareholders, if our cash flow from operations or refinancings is not sufficient, we may be forced to borrow additional money to fund such distributions.

Newly developed properties may not produce the cash flow that we expect, which could adversely affect our overall financial performance. In deciding whether to develop a particular property, we make assumptions regarding the expected future performance of that property. In particular, we estimate the return on our investment based on expected occupancy and rental rates. If our financial projections with respect to a new property are inaccurate, and the property is unable to achieve the expected occupancy and rental rates, it may fail to perform as we had expected. Our estimate of the costs of repositioning or redeveloping an acquired property may also prove to be inaccurate, which may result in our failure to meet our profitability goals.

Risks related to joint ventures may adversely affect our financial performance and results of operations. We have entered into, and may continue in the future to enter into, partnerships or joint ventures with other persons or entities. Joint venture investments involve risks that may not be present with other methods of ownership, including the



possibility: that our partner might become insolvent, refuse to make capital contributions when due or otherwise fail to meet its obligations, which may result in certain liabilities to us for guarantees and other commitments; that our partner might at any time have economic or other business interests or goals that are or become inconsistent with our interests or goals; that we could become engaged in a dispute with our partner, which could require us to expend additional resources to resolve such disputes and could have an adverse impact on the operations and profitability of the joint venture; and that our partner may be in a position to take action or withhold consent contrary to our instructions or requests. In addition, our ability to transfer our interest in a joint venture to a third party may be restricted. In some instances, we and/or our partner may have the right to trigger a buy-sell arrangement, which could cause us to sell our interest, or acquire our partner's interest, at a time when we otherwise would not have initiated such a transaction. Our ability to acquire our partner's interest may be limited if we do not have sufficient cash, available borrowing capacity or other capital resources. In such event, we may be forced to sell our interest in the joint venture when we would otherwise prefer to retain it. Joint ventures may require us to share decision-making authority with our partners, which could limit our ability to control the properties in the joint ventures. Even when we have a controlling interest, certain major decisions may require partner approval, such as the sale, acquisition or financing of a property.

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We face risks associated with security breaches through cyber-attacks, cyber intrusions, or otherwise, which could pose a risk to our systems, networks and services. We face risks associated with security breaches or disruptions, whether through cyber-attacks or cyber intrusions over the Internet, malware, computer viruses, attachments to emails, or persons inside our organization. The risk of a security breach or disruption, particularly through cyber-attacks or cyber intrusion, including by computer hackers, foreign governments and cyber terrorists, has generally increased as the number, intensity and sophistication of attempted attacks and intrusions from around the world have increased. In the normal course of business, we and our service providers (including service providers engaged in providing web hosting, property management, leasing, accounting and/or payroll software/services) collect and retain certain personal information provided by our tenants, employees and vendors. We also rely extensively on computer systems to process transactions and manage our business. While we and our service providers employ a variety of data security measures to protect confidential information on our systems and periodically review and improve our data security measures, we cannot assure that we or our service providers will be able to prevent unauthorized access to this personal information. There can be no assurance that our efforts to maintain the security and integrity of the information we and our service providers collect and our and their computer systems will be effective or that attempted security breaches or disruptions would not be successful or damaging. Even the most well protected information, networks, systems and facilities remain potentially vulnerable because the techniques used in such attempted security breaches evolve and generally are not recognized until launched against a target, and in some cases are designed not be detected and, in fact, may not be detected. Accordingly, we and our service providers may be unable to anticipate these techniques or to implement adequate security barriers or other preventative measures, and thus it is impossible for us and our service providers to entirely mitigate this risk. A security breach or other significant disruption involving computer networks and related systems could cause substantial costs and other negative measures including litigation, remediation costs, costs to deploy additional protection strategies, compromising of confidential information, and reputational damage adversely affecting investor confidence, which could adversely impact our financial condition.

Risks Related to Our Structure and Organization

We may incur tax liabilities as a consequence of failing to qualify as a REIT. Although our management believes that we are organized and have operated and are operating in such a manner to qualify as a “real estate investment trust,” as that term is defined under the Internal Revenue Code, we may not in fact have operated, or may not be able to continue to operate, in a manner to qualify or remain so qualified. Qualification as a REIT involves the application of highly technical and complex Internal Revenue Code provisions for which there are only limited judicial or administrative interpretations. Even a technical or inadvertent mistake could endanger our REIT status. The determination that we qualify as a REIT requires an ongoing analysis of various factual matters and circumstances, some of which may not be within our control. For example, in order to qualify as a REIT, at least 95% of our gross income in any year must come from certain passive sources that are itemized in the REIT tax laws, and we are prohibited from owning specified amounts of debt or equity securities of some issuers. Thus, to the extent revenues from non-qualifying sources, such as income from third-party management services, represent more than five percent of our gross income in any taxable year, we will not satisfy the 95% income test and may fail to qualify as a REIT, unless certain relief provisions contained in the Internal Revenue Code apply. Even if relief provisions apply, however, a tax would be imposed with respect to excess net income. We are also required to make distributions to the holders of our securities of at least 90% of our REIT taxable income, excluding net capital gains. The fact that we hold substantially all of our assets (except for qualified REIT subsidiaries) through IRET Properties, our operating

partnership, and its subsidiaries, and our ongoing reliance on factual determinations, such as determinations related to the valuation of our assets, further complicates the application of the REIT requirements for us. Additionally, if IRET Properties or one or more of our subsidiaries is determined to be taxable as a corporation, we may fail to qualify as a REIT. Either our failure to qualify as a REIT, for any reason, or the imposition of taxes on excess net income from non-qualifying sources, could have a material adverse effect on us, our ability to make distributions to the holders of our shares of beneficial interest and our ability to pay amounts due on our debt. Furthermore, new legislation, regulations, administrative interpretations or court decisions could change the tax laws with respect to our qualification as a REIT or the federal income tax consequences of our qualification.

If we failed to qualify as a REIT, we would be subject to federal income tax (including any applicable alternative minimum tax) on our taxable income at regular corporate rates, could be subject to increased state and local taxes and, unless entitled to relief under applicable statutory provisions, we would be disqualified from treatment as a REIT for the four taxable years following the year during which we lost our qualification, which would likely have a material adverse effect on us, our ability to make distributions to the holders of our shares of beneficial interest and our ability to pay amounts due on our debt. This treatment would reduce funds available for investment or distributions to the holders of

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our securities because of the additional tax liability to us for the year or years involved. In addition, we would no longer be able to deduct, and would not be required to make, distributions to holders of our securities. To the extent that distributions to the holders of our securities had been made in anticipation of qualifying as a REIT, we might be required to borrow funds or to liquidate certain investments to pay the applicable tax.

Failure of our operating partnership to qualify as a partnership would have a material adverse effect on us. We believe that IRET Properties, our operating partnership, qualifies as a partnership for federal income tax purposes. No assurance can be given, however, that the Internal Revenue Service will not challenge its status as a partnership for federal income tax purposes or that a court would not sustain such a challenge. If the Internal Revenue Service were to be successful in treating IRET Properties as an entity that is taxable as a corporation (such as a publicly-traded partnership taxable as a corporation), we would cease to qualify as a REIT because the value of our ownership interest in IRET Properties would exceed 5% of our assets and because we would be considered to hold more than 10% of the voting securities and value of the outstanding securities of another corporation. Also, the imposition of a corporate tax on IRET Properties would reduce significantly the amount of cash available for distribution by it.

Certain provisions of our Declaration of Trust may limit a change in control and deter a takeover. In order to maintain our qualification as a REIT, our Declaration of Trust provides that any transaction, other than a transaction entered into through the NASDAQ National Market or other similar exchange, that would result in our disqualification as a REIT under Section 856 of the Internal Revenue Code, including any transaction that would result in (i) a person owning in excess of the ownership limit of 9.8%, in number or value, of our outstanding securities, (ii) less than 100 people owning our securities, (iii) our being “closely held” within the meaning of Section 856(h) of the Internal Revenue Code, or (iv) 50% or more of the fair market value of our securities being held by persons other than “United States persons,” as defined in Section 7701(a)(30) of the Internal Revenue Code, will be void ab initio. If the transaction is not void ab initio, then the securities in excess of the ownership limit, that would cause us to be closely held, that would result in 50% or more of the fair market value of our securities to be held by persons other than United States persons or that otherwise would result in our disqualification as a REIT, will automatically be exchanged for an equal number of excess shares, and these excess shares will be transferred to an excess share trustee for the exclusive benefit of the charitable beneficiaries named by our Board of Trustees. These limitations may have the effect of preventing a change in control or takeover of us by a third party, even if the change in control or takeover would be in the best interests of the holders of our securities.

In order to maintain our REIT status, we may be forced to borrow funds during unfavorable market conditions. In order to maintain our REIT status, we may need to borrow funds on a short-term basis to meet the REIT distribution requirements even if the then-prevailing market conditions are not favorable for these borrowings. To qualify as a REIT, we generally must distribute to our shareholders at least 90% of our net taxable income each year, excluding net capital gains. In addition, we will be subject to a 4% nondeductible excise tax on the amount, if any, by which certain distributions made by us with respect to the calendar year are less than the sum of 85% of our ordinary income, 95% of our capital gain net income for that year, and any undistributed taxable income from prior periods. We intend to make distributions to our shareholders to comply with the 90% distribution requirement and to avoid the nondeductible excise tax and will rely for this purpose on distributions from our operating partnership. However, we may need short-term debt or long-term debt or proceeds from asset sales or sales of common shares to fund required distributions as a result of differences in timing between the actual receipt of income and the recognition of income for federal income tax purposes, or the effect of non-deductible capital expenditures, the creation of reserves or required

debt or amortization payments. The inability of our cash flows to cover our distribution requirements could have an adverse impact on our ability to raise short and long-term debt or sell equity securities in order to fund distributions required to maintain our REIT status.

Complying with REIT requirements may force us to forego otherwise attractive opportunities or liquidate otherwise attractive investments. To qualify and maintain our status as a REIT, we must satisfy certain requirements with respect to the character of our assets. If we fail to comply with these requirements at the end of any quarter, we must correct such failure within 30 days after the end of the quarter (by, possibly, selling assets notwithstanding their prospects as an investment) to avoid losing our REIT status. If we fail to comply with these requirements at the end of any quarter, and the failure exceeds a minimum threshold, we nonetheless may be able to preserve our REIT status if (a) the failure was due to reasonable cause and not to willful neglect, (b) we dispose of the assets causing the failure within six months after the last day of the quarter in which we identified the failure, (c) we file a schedule with the Internal Revenue Service describing each asset that caused the failure, and (d) we pay an additional tax of the greater of \$50,000 or the product of

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the highest applicable tax rate multiplied by the net income generated on those assets. As a result, compliance with the REIT requirements may require us to liquidate or forego otherwise attractive investments. These actions could have the effect of reducing our income and amounts available for distribution to our shareholders.

Even if we qualify as a REIT, we may face other tax liabilities that reduce our cash flow. Even if we qualify for taxation as a REIT, we may be subject to certain federal, state and local taxes on our income and assets, including taxes on any undistributed income, tax on income from some activities conducted a result of a foreclosure, and state or local income, property and transfer taxes, such as mortgage recording taxes. Any of these taxes would decrease cash available for distribution to our shareholders.

The tax imposed on REITs engaging in prohibited transactions may limit our ability to engage in transactions that would be treated as sales for federal income tax purposes. The federal income tax provisions applicable to REITs provide that any gain realized by a REIT on the sale of property held as inventory or other property held primarily for sale to customers in the ordinary course of business is treated as income from a “prohibited transaction” that is subject to a 100% penalty tax. Under current law, unless a sale of real property qualifies for a safe harbor, the question of whether the sale of a property constitutes the sale of property held primarily for sale to customers is generally a question of the facts and circumstances regarding a particular transaction. We may make sales that do not satisfy the requirements of the safe harbors or the IRS may successfully assert that one or more of our sales are prohibited transactions and, therefore we may be required to pay a penalty tax. To avert this penalty tax, we may hold some of our assets through a taxable REIT subsidiary (“TRS”). While the TRS structure would allow the economic benefits of ownership to flow to us, a TRS is subject to tax on its income from the operations of an assisted living facility at the federal and state level. In addition, a TRS is subject to detailed tax regulations that affect how it may be capitalized and operated. We currently have one TRS, to which we lease our Legends at Heritage Place assisted living facility, located in Sartell, Minnesota.

Because of the ownership structure of our Sartell, Minnesota assisted living facility, we face potential adverse effects from changes to the applicable tax laws. Under the Internal Revenue Code, REITs are not allowed to operate assisted living facilities directly or indirectly. Accordingly, we lease our Sartell, Minnesota assisted living facility to our TRS. While the TRS structure allows the economic benefits of ownership to flow to us, the TRS is subject to tax on its income from the operations of the assisted living facilities at the federal and state level. In addition, the TRS is subject to detailed tax regulations that affect how it may be capitalized and operated. If the tax laws applicable to a TRS are modified, we may be forced to modify the structure for owning these assisted living facilities, and such changes may adversely affect the cash flows from the facilities. In addition, the Internal Revenue Service, the United States Treasury Department and Congress frequently review federal income tax legislation, and we cannot predict whether, when or to what extent new federal tax laws, regulations, interpretations or rulings will be adopted. Any of such actions may prospectively or retroactively modify the tax treatment of the TRS and, therefore, may adversely affect our after-tax returns from our Sartell, Minnesota assisted living facility.

The lease of qualified health care properties to a taxable REIT subsidiary is subject to special requirements. We currently lease our Sartell, Minnesota assisted living facility to a TRS, and we may in the future lease other qualified health care properties we acquire from operators to a TRS (or a limited liability company of which the TRS is a

member), which lessee will contract with such operators (or a related party) to operate the health care operations at these properties. The rents from this TRS lessee structure will be treated as qualifying rents from real property if (1) they are paid pursuant to an arms-length lease of a qualified health care property with a TRS and (2) the operator qualifies as an eligible independent contractor. If any of these conditions are not satisfied, then the rents will not be qualifying rents, which could have a material adverse effect on us and our qualification as a REIT.

Recent tax legislation impacts certain federal income tax rules applicable to REITs and could adversely affect our current tax positions. The recently enacted Protecting Americans from Tax Hikes Act of 2015 (the "PATH Act") contains changes to certain aspects of the federal income tax rules applicable to us. The PATH Act is a recent example of changes to the REIT rules, and additional legislative changes may occur that could adversely affect our current tax positions. The PATH Act modifies various rules that apply to our ownership of, and business relationship with, our TRS and reduces the maximum allowable value of our assets attributable to TRSs from 25% to 20% which could impact our ability to enter into future investments. It expands prohibited transaction safe harbors and qualifying hedges and repeals the preferential dividend rule for public REITs. The PATH Act also adjusts the way we may calculate certain earnings and profit calculations to avoid double taxation at the shareholder level, and expands the types of qualifying assets and income for purposes of the REIT requirements. The provisions enacted by the PATH Act could result in changes in our

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tax positions or investments, and future legislative changes related to those rules described above could have a materially adverse impact on our results of operations and financial condition.

We may be subject to adverse legislative or regulatory tax changes that could reduce the market price of our common shares. At any time, the federal income tax laws governing REITs or the administrative interpretations of those laws may be amended. Any of those new laws or interpretations may take effect retroactively and could adversely affect us or the market price of our common shares of beneficial interest.

The U.S. federal income tax laws governing REITs are complex. We intend to operate in a manner that will qualify us as a REIT under the U.S. federal income tax laws. The REIT qualification requirements are extremely complex, however, and interpretations of the U.S. federal income tax laws governing qualification as a REIT are limited. Accordingly, we cannot be certain that we will continue to qualify as a REIT. At any time, new laws, interpretations or court decisions may change the federal tax laws or the U.S. federal income tax consequences of our qualification as a REIT.

Our Board of Trustees may make changes to our major policies without approval of the holders of our shares of beneficial interest. Our operating and financial policies, including policies relating to development and acquisition of real estate, financing, growth, operations, indebtedness, capitalization and distributions, are exclusively determined by our Board of Trustees. Our Board of Trustees may amend or revoke those policies, and other policies, without advance notice to, or the approval of, the holders of our shares of beneficial interest. Accordingly, our shareholders do not control these policies, and policy changes could adversely affect our financial condition and results of operations.

Risks Related to the Purchase of our Shares of Beneficial Interest

Our future growth depends, in part, on our ability to raise additional equity capital, which will have the effect of diluting the interests of the holders of our common shares. Our future growth depends upon, among other things, our ability to raise equity capital and issue limited partnership units of IRET Properties. The issuance of additional common shares, including the issuance of common shares in connection with redemption requests for limited partnership units, will dilute the interests of the current holders of our common shares. Additionally, sales of substantial amounts of our common or preferred shares in the public market, or substantial issuances of our common shares in connection with redemption requests for limited partnership units, or the perception that such sales or issuances might occur, could adversely affect the market price of our common shares.

We may issue additional classes or series of our shares of beneficial interest with rights and preferences that are superior to the rights and preferences of our common shares. Without the approval of the holders of our common shares, our Board of Trustees may establish additional classes or series of our shares of beneficial interest, and such classes or series may have dividend rights, conversion rights, voting rights, terms of redemption, redemption prices,



liquidation preferences or other rights and preferences that are superior to the rights of the holders of our common shares.

Payment of distributions on our shares of beneficial interest is not guaranteed. Our Board of Trustees must approve our payment of distributions and may elect at any time, or from time to time, and for an indefinite duration, to reduce the distributions payable on our shares of beneficial interest or to not pay distributions on our shares of beneficial interest. Our Board of Trustees may reduce distributions for a variety of reasons, including, but not limited to, the following:

- operating and financial results below expectations that cannot support the current distribution payment;
- unanticipated costs or cash requirements; or
- a conclusion that the payment of distributions would cause us to breach the terms of certain agreements or contracts, such as financial ratio covenants in our debt financing documents.

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Our distributions are not eligible for the lower tax rate on dividends except in limited situations. The tax rate applicable to qualifying corporate dividends received by shareholders taxed at individual rates is a maximum rate of 20%. This special tax rate is generally not applicable to distributions paid by a REIT, unless such distributions represent earnings on which the REIT itself had been taxed. As a result, distributions (other than capital gain distributions) paid by us to shareholders taxed at individual rates will generally be subject to the tax rates that are otherwise applicable to ordinary income. Although the earnings of a REIT that are distributed to its shareholders are still generally subject to less federal income taxation than earnings of a non-REIT C corporation that are distributed to its shareholders net of corporate-level income tax, this law change may make an investment in our securities comparatively less attractive relative to an investment in the shares of other entities which pay dividends but are not formed as REITs.

Changes in market conditions could adversely affect the price of our securities. As is the case with any publicly-traded securities, certain factors outside of our control could influence the value of our common shares, Series A preferred shares, Series B preferred shares and any other securities to be issued in the future. These conditions include, but are not limited to:

- market perception of REITs in general;
- market perception of REITs relative to other investment opportunities;
- market perception of our financial condition, performance, distributions and growth potential;
- prevailing interest rates;
- general economic and business conditions;
- government action or regulation, including changes in the tax laws; and
- relatively low trading volumes in securities of REITS.

Higher market interest rates may adversely affect the market price of our securities, and low trading volume on the New York Stock Exchange may prevent the timely resale of our securities. One of the factors that investors may consider important in deciding whether to buy or sell shares of a REIT is the distribution with respect to such REIT's shares as a percentage of the price of those shares, relative to market interest rates. If market interest rates rise, prospective purchasers of REIT shares may expect a higher distribution rate in order to maintain their investment. Higher market interest rates would likely increase our borrowing costs and might decrease funds available for distribution. Thus, higher market interest rates could cause the market price of our common shares to decline. In addition, although our common shares of beneficial interest are listed on the New York Stock Exchange, the daily

trading volume of our shares may be lower than the trading volume for other companies. The average daily trading volume for the period of May 1, 2015 through April 30, 2016 was 558,328 shares and the average monthly trading volume for the period of May 1, 2015 through April 30, 2016 was 11,724,894 shares. As a result of this trading volume, an owner of our common shares may encounter difficulty in selling our shares in a timely manner and may incur a substantial loss.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

We are organized as a REIT under Section 856-858 of the Internal Revenue Code, and are structured as an UPREIT, through which we conduct the business of owning, leasing, developing and acquiring real estate properties. These real estate investments are managed by our own employees and by third-party professional real estate management companies on our behalf.

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## Total Real Estate Rental Revenue

As of April 30, 2016, our real estate portfolio held for investment consisted of 99 multifamily, 31 healthcare and 16 other properties, comprising 74.0%, 20.1% and 5.9%, respectively, of our total real estate portfolio, based on the dollar amount of our original investment plus capital improvements, net of accumulated depreciation, through April 30, 2016. Gross annual rental revenue and percentages of total annual real estate rental revenue by property type for each of the three most recent fiscal years ended April 30, are as follows:

| Fiscal Year<br>Ended April 30, | Gross Revenue<br>(in thousands) |       |            |       |           |       | Total      |
|--------------------------------|---------------------------------|-------|------------|-------|-----------|-------|------------|
|                                | Multifamily                     | %     | Healthcare | %     | All Other | %     |            |
| 2016                           | \$ 131,149                      | 69.7% | \$ 45,621  | 24.2% | \$ 11,550 | 6.1%  | \$ 188,320 |
| 2015                           | \$ 118,526                      | 66.1% | \$ 44,153  | 24.6% | \$ 16,642 | 9.3%  | \$ 179,321 |
| 2014                           | \$ 102,059                      | 62.0% | \$ 44,098  | 26.8% | \$ 18,433 | 11.2% | \$ 164,590 |

## Average Effective Annual Rent

The table below sets out the average effective annual rent per unit or square foot at same-store properties for each of the last five fiscal years in each of our two segments. Same-store properties are properties owned or in service for the entirety of the periods being compared, and, in the case of development or re-development properties, which have achieved a target level of occupancy of 90% for multifamily properties and 85% for healthcare properties.

| As of April 30, | Average Effective Annual Rent per unit or square foot(1) |        |        |        |        |
|-----------------|--|--------|--------|--------|--------|
|                 | 2016   | 2015   | 2014   | 2013   | 2012   |
| Multifamily(2)  | \$ 844   | \$ 829 | \$ 783 | \$ 744 | \$ 719 |
| Healthcare(3)   | \$ 20  | \$ 16  | \$ 17  | \$ 16  | \$ 16  |

- (1) Previously reported amounts are not revised for discontinued operations or changes in the composition of the same-store properties pool.
- (2) Monthly rent per unit, calculated as annualized rental revenue, net of free rent, including rent abatements and rent credits, divided by the occupied units as of April 30.
- (3) Monthly rental rate per square foot calculated as annualized contractual base rental income, net of free rent and excluding operating expense reimbursements, divided by the leased square feet as of April 30.

## Occupancy Rates

Occupancy represents the actual number of units or square footage leased divided by the total number of units or square footage at the end of the period. Occupancy levels on a same-store property and all-property basis are shown below for each property type in each of the three most recent fiscal years ended April 30. In the case of multifamily properties, lease arrangements with individual tenants vary from month-to-month to one-year leases. Leases on healthcare properties generally vary from month-to-month to 20 years.

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

| Segments    | Same-Store Properties          |        |        | All Properties                 |        |        |
|-------------|--------------------------------|--------|--------|--------------------------------|--------|--------|
|             | Fiscal Year Ended<br>April 30, |        |        | Fiscal Year Ended<br>April 30, |        |        |
|             | 2016                           | 2015   | 2014   | 2016                           | 2015   | 2014   |
| Multifamily | 94.8 %                         | 95.1 % | 93.4 % | 90.8 %                         | 92.0 % | 93.0 % |
| Healthcare  | 95.6 %                         | 95.3 % | 92.2 % | 89.4 %                         | 91.5 % | 92.5 % |

Certain Lending Requirements

In certain instances, in connection with the acquisition of investment properties, the lender financing such properties may require, as a condition of the loan, that the properties be owned by a “single asset entity.” Accordingly, we have organized a number of wholly-owned subsidiary corporations, and IRET Properties has organized several limited liability companies, for the purpose of holding title in an entity that complies with such lending conditions. All financial statements of these subsidiaries are consolidated into our financial statements.

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## Management and Leasing of Our Real Estate Assets

We conduct our corporate operations from offices in Minot, North Dakota and Minneapolis and St. Cloud, Minnesota. We also have property management offices located in the states where we own properties. The day-to-day management of our properties is carried out by our own employees and in certain cases by third-party property management companies. In markets where the amount of rentable square footage we own does not justify self-management, when properties acquired have effective pre-existing property management in place, or when for other reasons particular properties are in our judgment not attractive candidates for self-management, we utilize third-party professional management companies for day-to-day management. For example, during the fourth quarter of fiscal year 2015, we had transferred the property management of the majority of our office and retail properties to a third-party company as part of our plan to sell those assets. However, all decisions relating to purchase, sale, insurance coverage, capital improvements, approval of commercial leases, annual operating budgets and major renovations are made exclusively by our employees and implemented by the third-party management companies. Generally, our management contracts provide for compensation ranging from 2.5% to 5.0% of gross rent collections and, typically, we may terminate these contracts in 60 days or less or upon the property manager's failure to meet certain specified financial performance goals. With respect to multi-tenant commercial properties, we rely almost exclusively on third-party brokers to locate potential tenants. As compensation, brokers may receive a commission that is generally calculated as a percentage of the net rent to be paid over the term of the lease. We believe that the broker commissions paid by us conform to market and industry standards, and accordingly are commercially reasonable.

## Summary of Real Estate Investment Portfolio

| As of April 30,<br>Real estate investments | (in thousands, except percentages) |        |              |        |              |        |
|--|------------------------------------|--------|--------------|--------|--------------|--------|
|  | 2016                               | %      | 2015         | %      | 2014         | %      |
| Property owned                             | \$ 1,681,471                       |        | \$ 1,335,687 |        | \$ 1,241,195 |        |
| Less accumulated depreciation              | (312,889)                          |        | (279,417)    |        | (273,935)    |        |
|  | \$ 1,368,582                       | 95.0 % | \$ 1,056,270 | 85.5 % | \$ 967,260   | 88.4 % |
| Development in progress                    | 51,681                             | 3.6 %  | 153,994      | 12.4 % | 104,609      | 9.6 %  |
| Unimproved land                            | 20,939                             | 1.4 %  | 25,827       | 2.1 %  | 22,864       | 2.0 %  |
| Total real estate investments              | \$ 1,441,202                       | 100.0% | \$ 1,236,091 | 100.0% | \$ 1,094,733 | 100.0% |

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## Summary of Individual Properties Owned as of April 30, 2016

The following table presents information regarding our 146 multifamily, healthcare and other properties held for investment, as well as unimproved land, development properties and properties held for sale as of April 30, 2016. We own the following interests in real estate either through our wholly-owned subsidiaries or by ownership of a controlling interest in an entity owning the real estate. We account for these interests on a consolidated basis. Additional information is included in Schedule III to our financial statements included in this Annual Report on Form 10-K.

| Property Name and Location                | Units | (in thousands)<br>Investment<br>(initial cost plus<br>improvements less<br>impairment) | Occupancy<br>as of<br>April 30, 2016 |
|---|-------|--|--------------------------------------|
| <b>MULTIFAMILY</b>                        |       |  |                                      |
| 71 France - Edina, MN                     | 181   | \$ 41,339  | 53.0%                                |
| 11th Street 3 Plex - Minot, ND            | 3     | 84   | 66.7%                                |
| 4th Street 4 Plex - Minot, ND             | 4     | 126  | 100.0%                               |
| Alps Park - Rapid City, SD                | 71    | 6,081  | 100.0%                               |
| Apartments on Main - Minot, ND            | 10    | 1,340  | 100.0%                               |
| Arbors - S Sioux City, NE                 | 192   | 9,094  | 100.0%                               |
| Arcata - Golden Valley, MN                | 165   | 32,759   | 86.7%                                |
| Ashland - Grand Forks, ND                 | 84    | 8,512  | 92.9%                                |
| Avalon Cove - Rochester, MN               | 187   | 35,699   | 95.7%                                |
| Boulder Court - Eagan, MN                 | 115   | 9,573  | 100.0%                               |
| Brookfield Village - Topeka, KS           | 160   | 8,825  | 99.4%                                |
| Brooklyn Heights - Minot, ND              | 72    | 2,574  | 95.8%                                |
| Canyon Lake - Rapid City, SD              | 109   | 6,011  | 96.3%                                |
| Cardinal Point - Grand Forks, ND          | 251   | 49,772   | 44.2%                                |
| Cascade Shores - Rochester, MN            | 90    | 18,295   | 93.3%                                |
| Castlerock - Billings, MT                 | 166   | 7,881  | 90.4%                                |
| Chateau I & II - Minot, ND                | 104   | 21,126   | 84.6%                                |
| Cimarron Hills - Omaha, NE                | 234   | 14,760   | 95.3%                                |
| Colonial Villa - Burnsville, MN           | 240   | 22,107   | 91.7%                                |
| Colony - Lincoln, NE                      | 232   | 18,186   | 98.7%                                |
| Colton Heights - Minot, ND                | 18    | 1,193  | 83.3%                                |
| Commons at Southgate - Minot, ND          | 233   | 36,623   | 95.3%                                |
| Cottage West Twin Homes - Sioux Falls, SD | 50    | 5,225  | 100.0%                               |
| Cottonwood - Bismarck, ND                 | 268   | 22,279   | 84.3%                                |

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|                                |     |        |       |
|--------------------------------|-----|--------|-------|
| Country Meadows - Billings, MT | 133 | 9,953  | 92.5% |
| Crestview - Bismarck, ND       | 152 | 6,378  | 98.7% |
| Crown - Rochester, MN          | 48  | 3,825  | 97.9% |
| Crown Colony - Topeka, KS      | 220 | 13,206 | 94.5% |
| Crystal Bay - Rochester, MN    | 76  | 11,858 | 94.7% |
| Cypress Court - St. Cloud, MN  | 196 | 20,624 | 96.4% |

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| Property Name and Location                  | Units | (in thousands)   |                                      |
|---|-------|--|--------------------------------------|
|   |       | Investment<br>(initial cost plus<br>improvements less<br>impairment) | Occupancy<br>as of<br>April 30, 2016 |
| Dakota Commons - Williston, ND              | 44    | 10,517   | 86.4%                                |
| Deer Ridge - Jamestown, ND                  | 163   | 24,897   | 50.9%                                |
| Evergreen - Isanti, MN                      | 36    | 3,262  | 100.0%                               |
| Evergreen II - Isanti, MN                   | 36    | 3,567  | 100.0%                               |
| Fairmont - Minot, ND                        | 12    | 481  | 100.0%                               |
| First Avenue - Minot, ND                    | 20    | 3,067  | 90.0%                                |
| Forest Park - Grand Forks, ND               | 269   | 14,135   | 93.7%                                |
| French Creek - Rochester, MN                | 40    | 4,936  | 100.0%                               |
| Gables Townhomes - Sioux Falls, SD          | 24    | 2,463  | 100.0%                               |
| Gardens - Grand Forks, ND                   | 74    | 9,291  | 100.0%                               |
| Grand Gateway - St. Cloud, MN               | 116   | 9,019  | 95.7%                                |
| GrandeVille at Cascade Lake - Rochester, MN | 276   | 55,586   | 74.6%                                |
| Greenfield - Omaha, NE                      | 96    | 5,635  | 97.9%                                |
| Heritage Manor - Rochester, MN              | 182   | 10,286   | 98.4%                                |
| Homestead Garden - Rapid City, SD           | 152   | 15,076   | 99.3%                                |
| Indian Hills - Sioux City, IA               | 120   | 7,148  | 99.2%                                |
| Kirkwood Manor - Bismarck, ND               | 108   | 4,941  | 88.0%                                |
| Lakeside Village - Lincoln, NE              | 208   | 17,672   | 93.3%                                |
| Landing at Southgate - Minot, ND            | 108   | 17,399   | 89.8%                                |
| Landmark - Grand Forks, ND                  | 90    | 2,852  | 97.8%                                |
| Legacy - Grand Forks, ND                    | 360   | 30,594   | 92.2%                                |
| Legacy Heights - Bismarck, ND               | 119   | 15,174   | 74.8%                                |
| Mariposa - Topeka, KS                       | 54    | 6,074  | 98.1%                                |
| Meadows - Jamestown, ND                     | 81    | 6,629  | 87.7%                                |
| Monticello Village - Monticello, MN         | 60    | 4,849  | 95.0%                                |
| Northern Valley - Rochester, MN             | 16    | 860  | 100.0%                               |
| North Pointe - Bismarck, ND                 | 73    | 5,068  | 86.3%                                |
| Northridge - Bismarck, ND                   | 68    | 8,496  | 94.1%                                |
| Oakmont Estates - Sioux Falls, SD           | 79    | 5,981  | 98.7%                                |
| Oakwood Estates - Sioux Falls, SD           | 160   | 7,797  | 96.9%                                |
| Olympic Village - Billings, MT              | 274   | 14,917   | 86.5%                                |
| Olympik Village - Rochester, MN             | 140   | 9,458  | 94.3%                                |
| Oxbow Park - Sioux Falls, SD                | 120   | 6,734  | 96.7%                                |
| Park Meadows - Waite Park, MN               | 360   | 17,836   | 95.0%                                |
| Pebble Springs - Bismarck, ND               | 16    | 937  | 93.8%                                |
| Pinehurst - Billings, MT                    | 21    | 1,119  | 85.7%                                |
| Pines - Minot, ND                           | 16    | 437  | 100.0%                               |
| Plaza - Minot, ND                           | 71    | 16,268   | 98.6%                                |
| Pointe West - Rapid City, SD                | 90    | 5,452  | 94.4%                                |
| Ponds at Heritage Place - Sartell, MN       | 58    | 5,359  | 100.0%                               |
| Prairie Winds - Sioux Falls, SD             | 48    | 2,535  | 91.7%                                |
| Quarry Ridge - Rochester, MN                | 313   | 33,968   | 99.0%                                |



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| Property Name and Location           | Units  | (in thousands)   |                                      |
|--------------------------------------|--------|--|--------------------------------------|
|                                      |        | Investment<br>(initial cost plus<br>improvements less<br>impairment) | Occupancy<br>as of<br>April 30, 2016 |
| Red 20 - Minneapolis, MN             | 130    | 28,606   | 94.6%                                |
| Regency Park Estates - St. Cloud, MN | 145    | 12,660   | 96.6%                                |
| Renaissance Heights - Williston, ND  | 288    | 62,800   | 43.8%                                |
| Ridge Oaks - Sioux City, IA          | 132    | 6,783  | 97.7%                                |
| Rimrock West - Billings, MT          | 78     | 5,525  | 96.2%                                |
| River Ridge - Bismarck, ND           | 146    | 25,706   | 95.2%                                |
| Rocky Meadows - Billings, MT         | 98     | 7,819  | 98.0%                                |
| Rum River - Isanti, MN               | 72     | 5,935  | 100.0%                               |
| Sherwood - Topeka, KS                | 300    | 19,231   | 96.7%                                |
| Sierra Vista - Sioux Falls, SD       | 44     | 2,815  | 95.5%                                |
| Silver Springs - Rapid City, SD      | 52     | 3,572  | 98.1%                                |
| South Pointe - Minot, ND             | 196    | 13,934   | 87.8%                                |
| Southpoint - Grand Forks, ND         | 96     | 10,564   | 96.9%                                |
| Southview - Minot, ND                | 24     | 1,089  | 87.5%                                |
| Southwind - Grand Forks, ND          | 164    | 8,724  | 98.8%                                |
| Summit Park - Minot, ND              | 95     | 3,906  | 89.5%                                |
| Sunset Trail - Rochester, MN         | 146    | 16,076   | 91.8%                                |
| Temple - Minot, ND                   | 4      | 234  | 100.0%                               |
| Terrace Heights - Minot, ND          | 16     | 489  | 93.8%                                |
| Thomasbrook - Lincoln, NE            | 264    | 14,484   | 97.0%                                |
| Valley Park - Grand Forks, ND        | 167    | 8,098  | 97.0%                                |
| Villa West - Topeka, KS              | 308    | 18,502   | 97.7%                                |
| Village Green - Rochester, MN        | 36     | 3,539  | 100.0%                               |
| West Stonehill - Waite Park, MN      | 312    | 17,542   | 96.2%                                |
| Westridge - Minot, ND                | 33     | 2,264  | 97.0%                                |
| Westwood Park - Bismarck, ND         | 65     | 4,000  | 96.9%                                |
| Whispering Ridge - Omaha, NE         | 336    | 28,588   | 98.5%                                |
| Williston Garden - Williston, ND     | 145    | 19,311   | 66.2%                                |
| Winchester - Rochester, MN           | 115    | 8,247  | 95.7%                                |
| Woodridge - Rochester, MN            | 108    | 8,786  | 99.1%                                |
| TOTAL MULTIFAMILY                    | 12,950 | \$ 1,243,909   | 90.8%                                |

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| Property Name and Location  | Approximate<br>Net Rentable<br>Square<br>Footage | (in thousands)   |                                      |
|---|--|--|--------------------------------------|
|   |  | Investment<br>(initial cost plus<br>improvements less<br>impairment) | Occupancy<br>as of<br>April 30, 2016 |
| <b>HEALTHCARE</b>   |  |  |                                      |
| 2800 Medical Building - Minneapolis, MN                               | 53,603   | \$ 9,886   | 85.6%                                |
| 2828 Chicago Avenue - Minneapolis, MN                                 | 56,239   | 17,325   | 100.0%                               |
| Airport Medical - Bloomington, MN*                                    | 24,218   | 4,729  | 100.0%                               |
| Billings 2300 Grant Road - Billings, MT                               | 14,705   | 1,865  | 100.0%                               |
| Burnsville 303 Nicollet Medical (Ridgeview) - Burnsville,<br>MN       | 53,896   | 10,050   | 100.0%                               |
| Burnsville 305 Nicollet Medical (Ridgeview South) -<br>Burnsville, MN | 36,199   | 6,537  | 92.9%                                |
| Denfeld Clinic - Duluth, MN   | 20,512   | 3,099  | 100.0%                               |
| Eagan 1440 Duckwood Medical - Eagan, MN                               | 17,640   | 2,624  | 100.0%                               |
| Edina 6363 France Medical - Edina, MN*                                | 70,934   | 15,994   | 100.0%                               |
| Edina 6405 France Medical - Edina, MN*                                | 55,478   | 12,458   | 100.0%                               |
| Edina 6517 Drew Avenue - Edina, MN                                    | 12,140   | 1,040  | 100.0%                               |
| Edina 6525 Drew Avenue - Edina, MN                                    | 3,431  | 505  | 100.0%                               |
| Edina 6525 France SMC II - Edina, MN                                  | 67,409   | 14,965   | 95.1%                                |
| Edina 6545 France SMC I - Edina MN*                                   | 227,626  | 48,055   | 91.5%                                |
| Edina 6565 France SMC III - Edina, MN                                 | 57,624   | 34,233   | 24.5%                                |
| Fresenius - Duluth, MN  | 9,052  | 1,572  | 100.0%                               |
| Garden View - St. Paul, MN*   | 43,404   | 8,480  | 100.0%                               |
| Gateway Clinic - Sandstone, MN*                                       | 12,444   | 1,776  | 100.0%                               |
| Healtheast St John & Woodwinds - Maplewood &<br>Woodbury, MN          | 114,316  | 21,601   | 100.0%                               |
| High Pointe Health Campus - Lake Elmo, MN                             | 60,558   | 14,007   | 75.5%                                |
| Lakeside Medical Plaza - Omaha, NE                                    | 27,819   | 6,113  | 100.0%                               |
| Mariner Clinic - Superior, WI*  | 28,928   | 4,056  | 100.0%                               |
| Minneapolis 701 25th Avenue Medical - Minneapolis,<br>MN*             | 57,212   | 9,439  | 92.0%                                |
| Missoula 3050 Great Northern - Missoula, MT                           | 14,640   | 1,971  | 100.0%                               |
| Park Dental - Brooklyn Center, MN                                     | 9,998  | 2,967  | 100.0%                               |
| Pavilion I - Duluth, MN*  | 45,081   | 10,174   | 100.0%                               |
| Pavilion II - Duluth, MN  | 73,000   | 19,325   | 100.0%                               |
| PrairieCare Medical - Brooklyn Park, MN                               | 70,756   | 24,440   | 100.0%                               |
| Ritchie Medical Plaza - St Paul, MN                                   | 52,116   | 13,529   | 92.9%                                |
| St Michael Clinic - St Michael, MN                                    | 10,796   | 2,851  | 100.0%                               |
| Trinity at Plaza 16 - Minot, ND                                       | 24,795   | 9,593  | 100.0%                               |
| Wells Clinic - Hibbing, MN  | 18,810   | 2,661  | 100.0%                               |
| <b>TOTAL HEALTHCARE</b>   | <b>1,445,379</b>                                 | <b>\$ 337,920</b>  | <b>94.9%</b>                         |



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| Property Name and Location                       | Approximate<br>Net Rentable<br>Square<br>Footage | (in thousands)<br>Investment<br>(initial cost plus<br>improvements less<br>impairment) | Occupancy<br>as of<br>April 30, 2016 |
|--|--|--|--------------------------------------|
| <b>OTHER</b>                                     |  |  |                                      |
| 1st Avenue Building - Minot, ND                  | 4,427  | \$ 367   | 100.0%                               |
| 17 South Main - Minot, ND                        | 2,454  | 287  | 100.0%                               |
| Bismarck 715 East Broadway - Bismarck, ND        | 22,187   | 2,798  | 100.0%                               |
| Bloomington 2000 W 94th Street - Bloomington, MN | 101,567  | 7,473  | 100.0%                               |
| Dakota West Plaza - Minot, ND                    | 16,921   | 615  | 78.0%                                |
| Grand Forks Carmike - Grand Forks, ND            | 28,528   | 2,546  | 100.0%                               |
| Lexington Commerce Center - Eagan, MN            | 90,260   | 6,882  | 100.0%                               |
| Minot 1400 31st Ave - Minot, ND                  | 48,960   | 11,573   | 76.3%                                |
| Minot 2505 16th Street SW - Minot, ND            | 15,000   | 2,318  | 100.0%                               |
| Minot Arrowhead - Minot, ND                      | 81,594   | 8,870  | 96.0%                                |
| Minot IPS - Minot, ND                            | 27,698   | 6,368  | 100.0%                               |
| Minot Southgate Wells Fargo Bank - Minot, ND     | 4,998  | 3,229  | 100.0%                               |
| Minot Southgate Retail - Minot, ND               | 7,963  | 2,623  | - %                                  |
| Plaza 16 - Minot, ND                             | 50,610   | 9,693  | 100.0%                               |
| Roseville 3075 Long Lake Road - Roseville, MN    | 220,557  | 12,825   | 83.6%                                |
| Urbandale 3900 106th Street - Urbandale, IA      | 518,161  | 15,555   | 100.0%                               |
| Woodbury 1865 Woodlane - Woodbury, MN            | 69,600   | 5,620  | 100.0%                               |
| <b>TOTAL OTHER</b>                               | <b>1,311,485</b>                                 | <b>\$ 99,642</b>   | <b>95.8%</b>                         |
| <b>SUBTOTAL</b>                                  | <b>2,769,814</b>                                 | <b>\$ 1,681,471</b>  |                                      |

| Property Name and Location            | (in thousands)<br>Investment<br>(initial cost plus<br>improvements less<br>impairment) |
|---------------------------------------|--|
| <b>UNIMPROVED LAND</b>                |  |
| Badger Hills - Rochester, MN          | \$ 1,050   |
| Bismarck 4916 - Bismarck, ND          | 3,267  |
| Bismarck 700 E Main - Bismarck, ND    | 882  |
| Creekside Crossing - Bismarck, ND     | 4,352  |
| Grand Forks - Grand Forks, ND         | 4,278  |
| Isanti Unimproved - Isanti, MN        | 58   |
| Minot 1525 24th Ave SW - Minot, ND    | 1,262  |
| Rapid City Unimproved- Rapid City, SD | 1,376  |
| Renaissance Heights - Williston, ND   | 3,930  |
| Urbandale - Urbandale, IA             | 114  |
| Weston - Weston, WI                   | 370  |

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|  |           |              |
|--|-----------|--------------|
| TOTAL UNIMPROVED LAND                    |           | \$ 20,939    |
| DEVELOPMENT IN PROGRESS                  |           |              |
| 71-France - Edina, MN                    |           | 30,415       |
| Monticello 7th Addition - Monticello, MN |           | 17,507       |
| Other                                    |           | 3,759        |
| TOTAL DEVELOPMENT IN PROGRESS            |           | \$ 51,681    |
| TOTAL UNITS - MULTIFAMILY                | 12,950    |              |
| TOTAL SQUARE FOOTAGE - COMMERCIAL        | 2,769,814 |              |
| TOTAL REAL ESTATE                        |           | \$ 1,754,091 |

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| Property Name and Location                                     | Approximate<br>Net Rentable<br>Square<br>Footage or Units | (in thousands)   |                                      |
|--|---|--|--------------------------------------|
|  |   | Investment<br>(initial cost plus<br>improvements less<br>impairment) | Occupancy<br>as of<br>April 30, 2016 |
| <b>HELD FOR SALE</b>   |   |  |                                      |
| Casper 1930 E 12th Street (Park Place) - Casper, WY(2)         | 65,160  | 7,515  | 100.0%                               |
| Casper 3955 E 12th Street (Meadow Wind) - Casper, WY(2)        | 57,822  | 12,582   | 100.0%                               |
| Cheyenne 4010 N College Drive (Aspen Wind) - Cheyenne, WY(2)   | 47,509  | 13,143   | 100.0%                               |
| Cheyenne 4606 N College Drive (Sierra Hills) - Cheyenne, WY(2) | 54,072  | 9,618  | 100.0%                               |
| Edgewood Vista - Belgrade, MT(2)                               | 5,192   | 1,943  | 100.0%                               |
| Edgewood Vista - Billings, MT(2)                               | 11,800  | 3,915  | 100.0%                               |
| Edgewood Vista - Bismarck, ND(2)                               | 74,112  | 10,722   | 100.0%                               |
| Edgewood Vista - Brainerd, MN(2)                               | 82,535  | 10,502   | 100.0%                               |
| Edgewood Vista - Columbus, NE(2)                               | 5,194   | 1,398  | 100.0%                               |
| Edgewood Vista - East Grand Forks, MN(2)                       | 18,488  | 4,506  | 100.0%                               |
| Edgewood Vista - Fargo, ND(2)                                  | 167,391   | 25,677   | 100.0%                               |
| Edgewood Vista - Fremont, NE(2)                                | 6,042   | 605  | 100.0%                               |
| Edgewood Vista - Grand Island, NE(2)                           | 5,185   | 1,346  | 100.0%                               |
| Edgewood Vista - Hastings, NE(2)                               | 6,042   | 628  | 100.0%                               |
| Edgewood Vista - Hermantown I, MN(2)                           | 119,349   | 20,253   | 100.0%                               |
| Edgewood Vista - Hermantown II, MN(2)                          | 160,485   | 12,178   | 100.0%                               |
| Edgewood Vista - Kalispell, MT(2)                              | 10,295  | 1,197  | 100.0%                               |
| Edgewood Vista - Minot, ND(2)                                  | 108,503   | 15,440   | 100.0%                               |
| Edgewood Vista - Missoula, MT(2)                               | 10,150  | 1,035  | 100.0%                               |
| Edgewood Vista - Norfolk, NE(2)                                | 5,135   | 1,258  | 100.0%                               |
| Edgewood Vista - Omaha, NE(2)                                  | 6,042   | 691  | 100.0%                               |
| Edgewood Vista - Sioux Falls, SD(2)                            | 11,800  | 3,042  | 100.0%                               |
| Edgewood Vista - Spearfish, SD(2)                              |   |  |                                      |