INVESTORS REAL ESTATE TRUST
Form 10-Q
December 10, 2008

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

Form 10-Q

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

For Quarter Ended October 31, 2008

Commission File Number 0-14851

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

North Dakota	45-0311232
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

Post Office Box 1988
12 Main Street South
Minot, ND 58702-1988
(Address of principal executive offices) (Zip code)

(701) 837-4738

(Registrant's telephone number, including area code)

N/A

(Former name, former address, and former fiscal year, if changed since last report.)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to the filing requirements for at least the past 90 days.

Yes R No £

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

Large accelerated filer £	Accelerated filer R
Non-accelerated filer £	Smaller Reporting Company £

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

Yes £ No R

Registrant is a North Dakota Real Estate Investment Trust. As of December 3, 2008, it had 58,793,313 common shares of beneficial interest outstanding.

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PART I

ITEM 1. FINANCIAL STATEMENTS - SECOND QUARTER - FISCAL 2009

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

	(in thousands, except share data)	
	October 31, 2008	April 30, 2008
ASSETS		
Real estate investments		
Property owned	$ 1,690,763	$ 1,648,259
Less accumulated depreciation	(240,452)	(219,379)
	1,450,311	1,428,880
Development in progress	17,603	22,856
Unimproved land	5,036	3,901
Mortgage loans receivable, net of allowance of $11 and $11, respectively	528	541
Total real estate investments	1,473,478	1,456,178
Other assets		
Cash and cash equivalents	40,855	53,481
Marketable securities – available-for-sale	420	420
Receivable arising from straight-lining of rents, net of allowance of $787 and $992, respectively	14,962	14,113
Accounts receivable, net of allowance of $291 and $261, respectively	3,676	4,163
Real estate deposits	86	1,379
Prepaid and other assets	1,813	349
Intangible assets, net of accumulated amortization of $39,845 and $34,493, respectively	56,576	61,649
Tax, insurance, and other escrow	6,182	8,642
Property and equipment, net of accumulated depreciation of $951 and $1,328, respectively	1,432	1,467
Goodwill	1,392	1,392
Deferred charges and leasing costs, net of accumulated amortization of $8,751 and $7,265, respectively	16,037	14,793
TOTAL ASSETS	$ 1,616,909	$ 1,618,026
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES		
Accounts payable and accrued expenses	$ 26,645	$ 33,757
Revolving lines of credit	15,000	0
Mortgages payable	1,066,113	1,063,858
Other	703	978
TOTAL LIABILITIES	1,108,461	1,098,593
COMMITMENTS AND CONTINGENCIES (NOTE 6)		
MINORITY INTEREST IN PARTNERSHIPS	13,098	12,609
MINORITY INTEREST OF UNITHOLDERS IN OPERATING PARTNERSHIP	157,622	161,818
(21,287,484 units at October 31, 2008 and 21,238,342 units at April 30, 2008)		

SHAREHOLDERS' EQUITY		
Preferred Shares of Beneficial Interest (Cumulative redeemable preferred shares, no par value, 1,150,000 shares issued and outstanding at October 31, 2008 and April 30, 2008, aggregate liquidation preference of $28,750,000)	27,317	27,317
Common Shares of Beneficial Interest (Unlimited authorization, no par value, 58,713,015 shares issued and outstanding at October 31, 2008, and 57,731,863 shares issued and outstanding at April 30, 2008)	448,803	440,187
Accumulated distributions in excess of net income	(138,392)	(122,498)
Total shareholders' equity	337,728	345,006
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 1,616,909	$ 1,618,026

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

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INVESTORS REAL ESTATE TRUST AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited)
for the three months and six months ended October 31, 2008 and 2007

	Three Months Ended October 31		Six Months Ended October 31	
	(in thousands, except per share data)			
	2008	2007	2008	2007
REVENUE				
Real estate rentals	$ 48,857	$ 44,543	$ 96,514	$ 88,636
Tenant reimbursement	10,716	9,668	21,905	19,148
TOTAL REVENUE	59,573	54,211	118,419	107,784
EXPENSES				
Interest	17,078	15,687	33,966	31,129
Depreciation/amortization related to real estate investments	13,480	12,164	26,798	24,353
Utilities	4,607	4,296	9,041	8,244
Maintenance	6,585	6,021	13,584	12,027
Real estate taxes	7,487	6,463	14,857	12,892
Insurance	754	606	1,504	1,256
Property management expenses	4,520	3,667	8,771	7,508
Administrative expenses	1,125	1,101	2,356	2,223
Advisory and trustee services	114	166	214	240
Other expenses	482	457	844	710
Amortization related to non-real estate investments	479	340	928	683
TOTAL EXPENSES	56,711	50,968	112,863	101,265
Interest income	210	339	433	693
Other income	78	92	103	373
Income before gain on sale of other investments and minority interest and discontinued operations	3,150	3,674	6,092	7,585
Gain on sale of other investments	54	3	54	2
Minority interest portion of operating partnership income	(700)	(855)	(1,347)	(1,835)
Minority interest portion of other partnerships' loss	19	0	82	36
Income from continuing operations	2,523	2,822	4,881	5,788
Discontinued operations, net of minority interest	0	14	0	29
NET INCOME	2,523	2,836	4,881	5,817
Dividends to preferred shareholders	(593)	(593)	(1,186)	(1,186)
NET INCOME AVAILABLE TO COMMON SHAREHOLDERS	$ 1,930	$ 2,243	$ 3,695	$ 4,631
Earnings per common share from continuing operations	$ .03	$ .04	$ .06	$ .09
Earnings per common share from discontinued operations	.00	.00	.00	.00
NET INCOME PER COMMON SHARE – BASIC AND DILUTED	$ .03	$ .04	$ .06	$ .09

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

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INVESTORS REAL ESTATE TRUST AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY (unaudited)
for the six months ended October 31, 2008

(in thousands)

	NUMBER OF PREFERRED SHARES	PREFERRED SHARES	NUMBER OF COMMON SHARES	COMMON SHARES	ACCUMULATED DISTRIBUTIONS IN EXCESS OF NET INCOME	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	TOTAL SHAREHOLDERS' EQUITY
Balance April 30, 2008	1,150	$ 27,317	57,732	$ 440,187	$ (122,498)	$ 0	$ 345,006
Net income					4,881		4,881
Distributions – common shares					(19,589)		(19,589)
Distributions – preferred shares					(1,186)		(1,186)
Distribution reinvestment plan			618	6,052			6,052
Sale of shares			66	637			637
Redemption of units for common shares			297	1,927			1,927
Balance October 31, 2008	1,150	$ 27,317	58,713	$ 448,803	$ (138,392)	$ 0	$ 337,728

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

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INVESTORS REAL ESTATE TRUST AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)
for the six months ended October 31, 2008 and 2007

	Six Months Ended October 31 (in thousands) 2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	$ 4,881	$ 5,817
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	28,235	25,432
Minority interest portion of income	1,265	1,810
Gain on sale of real estate, land and other investments	(54)	(2)
Bad debt expense	681	543
Changes in other assets and liabilities:		
Increase in receivable arising from straight-lining of rents	(1,288)	(928)
Decrease in accounts receivable	1,073	379
Increase in prepaid and other assets	(1,464)	(877)
Decrease in tax, insurance and other escrow	2,460	683
Increase in deferred charges and leasing costs	(2,804)	(1,871)
Decrease in accounts payable, accrued expenses, and other liabilities	(8,470)	(5,973)
Net cash provided by operating activities	24,515	25,013
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of marketable securities – available-for-sale	0	6
Net proceeds (payments) of real estate deposits	1,293	(867)
Principal proceeds on mortgage loans receivable	13	12
Purchase of marketable securities – available-for-sale	0	(37)
Proceeds from sale of real estate and other investments	67	298
Insurance proceeds received	997	387
Payments for acquisitions and improvements of real estate investments	(35,870)	(33,141)
Net cash used by investing activities	(33,500)	(33,342)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from sale of common shares, net of issue costs	637	66,405
Proceeds from mortgages payable	31,188	17,438
Proceeds from minority partner	717	0
Proceeds from revolving lines of credit	15,000	0
Repurchase of fractional shares and minority interest units	0	(5)
Distributions paid to common shareholders, net of reinvestment of $5,671 and $4,974, respectively	(13,918)	(11,304)
Distributions paid to preferred shareholders	(1,186)	(1,186)
Distributions paid to unitholders of operating partnership, net of reinvestment of $381and $394, respectively	(6,807)	(6,320)
Distributions paid to other minority partners	(146)	(108)
Redemption of partnership units	(158)	0
Principal payments on mortgages payable	(28,933)	(11,765)
Principal payments on revolving lines of credit and other debt	(35)	(40)
Net cash (used) provided by financing activities	(3,641)	53,115

NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(12,626)	44,786
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	53,481	44,516
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 40,855	$ 89,302

(continued)

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INVESTORS REAL ESTATE TRUST AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited, continued)
for the six months ended October 31, 2008 and 2007

	Six Months Ended October 31 (in thousands)	
	2008	2007
SUPPLEMENTARY SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES FOR THE PERIOD		
Distribution reinvestment plan	$ 5,671	$ 4,974
Operating partnership distribution reinvestment plan	381	394
Real estate investment acquired through assumption of indebtedness and accrued costs	0	10,800
Assets acquired through the issuance of minority interest units in the operating partnership	3,730	5,650
Operating partnership units converted to shares	1,927	2,973
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the period for:		
Interest on mortgages	34,043	30,656
Interest other	70	19
	$ 34,113	$ 30,675

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

INVESTORS REAL ESTATE TRUST AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)
for the six months ended October 31, 2008 and 2007

NOTE 1 • ORGANIZATION

Investors Real Estate Trust ("IRET" or the "Company") is a self-advised real estate investment trust engaged in acquiring, owning and leasing multi-family and commercial real estate. IRET has elected to be taxed as a Real Estate Investment Trust ("REIT") under Sections 856-860 of the Internal Revenue Code of 1986, as amended. REITs are subject to a number of organizational and operational requirements, including a requirement to distribute 90% of ordinary taxable income to shareholders, and, generally, are not subject to federal income tax on net income. IRET's multi-family residential properties and commercial properties are located mainly in the states of North Dakota and Minnesota, but also in the states of Colorado, Idaho, Iowa, Kansas, Montana, Missouri, Nebraska, South Dakota, Texas, Michigan and Wisconsin. As of October 31, 2008, IRET owned 77 multi-family residential properties with 9,564 apartment units and 165 commercial properties, consisting of office, medical, industrial and retail properties, totaling 11.6 million net rentable square feet. IRET conducts a majority of its business activities through its consolidated operating partnership, IRET Properties, a North Dakota Limited Partnership (the "Operating Partnership"), as well as through a number of other consolidated subsidiary entities.

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

NOTE 2 • BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

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

The accompanying condensed consolidated financial statements include the accounts of IRET and its interest in the Operating Partnership. The Company's interest in the Operating Partnership was 73.4% and 73.1%, respectively, as of October 31, 2008 and April 30, 2008. The limited partners have a redemption option that they may exercise. Upon exercise of the redemption option by the limited partners, IRET has the choice of redeeming the limited partners' interests ("Units") for IRET common shares of beneficial interest, on a one-for-one basis, or making a cash payment to the unitholder. The redemption generally may be exercised by the limited partners at any time after the first anniversary of the date of the acquisition of the Units (provided, however, that in general not more than two redemptions by a limited partner may occur during each calendar year, and each limited partner may not exercise the redemption for less than 1,000 Units, or, if such limited partner holds less than 1,000 Units, for all of the Units held by such limited partner). The Operating Partnership and some limited partners have contractually agreed to a holding period of greater than one year and/or a greater number of redemptions during a calendar year.

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

UNAUDITED INTERIM FINANCIAL STATEMENTS

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

The current period's results of operations are not necessarily indicative of results which ultimately may be achieved for the year. The interim condensed consolidated financial statements and notes thereto should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended April 30, 2008, filed with the SEC.

RECLASSIFICATIONS

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

RECENT ACCOUNTING PRONOUNCEMENTS

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

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

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities ("SFAS 159"). SFAS 159 permits entities to irrevocably elect fair value on a contract-by-contract basis as the initial and subsequent measurement attribute for many financial assets and liabilities and certain other items including property and casualty insurance contracts. SFAS 159 was effective for the Company on May 1, 2008. The adoption of SFAS No. 159 did not have any impact on the Company's financial statements because the Company did not elect to measure any financial assets or liabilities at fair value.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements, ("SFAS 157"), which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. SFAS 157 was effective for the Company on May 1, 2008; however, FASB Staff Position No. 157-2 defers the effective date for certain non-financial assets and liabilities not re-measured at fair value on a recurring basis to fiscal years beginning after November 15, 2008, or our first quarter of fiscal year 2010.

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

At October 31, 2008, our marketable securities are carried at fair value measured on a recurring basis. Fair values are determined through the use of unadjusted quoted prices in active markets, which are inputs that are classified as Level 1 in the valuation hierarchy.

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USE OF ESTIMATES

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

NOTE 3 • EARNINGS PER SHARE

Basic earnings per share is computed by dividing net income available to common shareholders by the weighted average number of common shares outstanding during the period. The Company has no outstanding options, warrants, convertible stock or other contractual obligations requiring issuance of additional common shares that would result in a dilution of earnings. While Units can be exchanged for common shares on a one-for-one basis after a minimum holding period of one year, the exchange of Units for common shares has no effect on net income per share, as Unitholders and common shareholders effectively share equally in the net income of the Operating Partnership. The following table presents a reconciliation of the numerator and denominator used to calculate basic and diluted earnings per share reported in the condensed consolidated financial statements for the three months and six months ended October 31, 2008 and 2007:

	Three Months Ended October 31		Six Months Ended October 31	
	(in thousands, except per share data)			
	2008	2007	2008	2007
NUMERATOR				
Income from continuing operations	$ 2,523	$ 2,822	$ 4,881	$ 5,788
Discontinued operations, net	0	14	0	29
Net income	2,523	2,836	4,881	5,817
Dividends to preferred shareholders	(593)	(593)	(1,186)	(1,186)
Numerator for basic earnings per share – net income available to common shareholders	1,930	2,243	3,695	4,631
Minority interest portion of operating partnership income	700	859	1,347	1,846
Numerator for diluted earnings per share	$ 2,630	$ 3,102	$ 5,042	$ 6,477
DENOMINATOR				
Denominator for basic earnings per share - weighted average shares	58,374	49,675	58,145	49,169
Effect of convertible operating partnership units	21,294	20,483	21,296	20,383
Denominator for diluted earnings per share	79,668	70,158	79,441	69,552
Earnings per common share from continuing operations – basic and diluted	$ .03	$ .04	$ .06	$ .09
Earnings per common share from discontinued operations – basic and diluted	.00	.00	.00	.00
NET INCOME PER COMMON SHARE – BASIC AND DILUTED	$ .03	$ .04	$ .06	$ .09

NOTE 4 • SHAREHOLDERS' EQUITY

As of October 31, 2008, 296,650 Units have been converted to common shares during fiscal year 2009, with a total value of approximately $1.9 million included in shareholders' equity, and 4,818 common shares have been issued under the Company's 401(k) plan, with a total value of approximately $47,000 included in shareholders' equity. An additional 679,783 common shares have been issued under the Company's Distribution Reinvestment and Share Purchase Plan during the six months ended October 31, 2008 with a total value of $6.6 million included in shareholders' equity.

NOTE 5 • SEGMENT REPORTING

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

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

The revenues and net operating income for these reportable segments are summarized as follows for the three and six month periods ended October 31, 2008 and 2007, along with reconciliations to the condensed consolidated financial statements. Segment assets are also reconciled to Total Assets as reported in the condensed consolidated financial statements.

(in thousands)

Three Months Ended October 31, 2008	Multi-Family Residential	Commercial-Office	Commercial-Medical	Commercial-Industrial	Commercial-Retail	Total
Real estate revenue	$ 19,402	$ 20,723	$ 12,960	$ 2,975	$ 3,513	$ 59,573
Real estate expenses	8,929	9,203	3,863	802	1,156	23,953
Net operating income	$ 10,473	$ 11,520	$ 9,097	$ 2,173	$ 2,357	35,620
Interest						(17,078)
Depreciation/amortization						(13,959)
Administrative, advisory and trustee fees						(1,239)
Other expenses						(482)
Other income						288
Income before gain on sale of other investments and minority interest and discontinued operations						$ 3,150

(in thousands)

Three Months Ended October 31, 2007	Multi-Family Residential	Commercial-Office	Commercial-Medical	Commercial-Industrial	Commercial-Retail	Total
Real estate revenue	$ 18,268	$ 20,611	$ 8,920	$ 3,027	$ 3,385	$ 54,211
Real estate expenses	8,676	8,721	2,043	626	987	21,053
Net operating income	$ 9,592	$ 11,890	$ 6,877	$ 2,401	$ 2,398	33,158
Interest						(15,687)
Depreciation/amortization						(12,504)
Administrative, advisory and trustee fees						(1,267)
Other expenses						(457)
Other income						431
Income before gain on sale of other investments and minority interest and discontinued operations						$ 3,674

(in thousands)

Six Months Ended October 31, 2008	Multi-Family Residential	Commercial-Office	Commercial-Medical	Commercial-Industrial	Commercial-Retail	Total
Real estate revenue	$ 38,003	$ 41,529	$ 25,825	$ 6,071	$ 6,991	$ 118,419

Real estate expenses	17,654	18,647	7,625	1,535	2,296	47,757
Net operating income	$ 20,349	$ 22,882	$ 18,200	$ 4,536	$ 4,695	70,662
Interest						(33,966)
Depreciation/amortization						(27,726)
Administrative, advisory and trustee fees						(2,570)
Other expenses						(844)
Other income						536
Income before gain on sale of other investments and minority interest and discontinued operations						$ 6,092

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Six Months Ended October 31, 2007	Multi-Family Residential	Commercial-Office	Commercial-Medical	Commercial-Industrial	Commercial-Retail	Total
			(in thousands)			
Real estate revenue	$ 35,987	$ 41,206	$ 17,885	$ 5,689	$ 7,017	$ 107,784
Real estate expenses	16,960	17,437	4,316	1,125	2,089	41,927
Net operating income	$ 19,027	$ 23,769	$ 13,569	$ 4,564	$ 4,928	65,857
Interest						(31,129)
Depreciation/amortization						(25,036)
Administrative, advisory and trustee fees						(2,463)
Other expenses						(710)
Other income						1,066
Income before gain on sale of other investments and minority interest and discontinued operations						$ 7,585

Segment Assets and Accumulated Depreciation

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

As of October 31, 2008	Multi-Family Residential	Commercial-Office	Commercial-Medical	Commercial-Industrial	Commercial-Retail	Total
			(in thousands)			
Segment Assets						
Property owned	$ 521,002	$ 562,892	$ 384,146	$ 104,268	$ 118,455	$ 1,690,763
Less accumulated depreciation/amortization	(108,645)	(65,458)	(37,055)	(11,650)	(17,644)	(240,452)
Total property owned	$ 412,357	$ 497,434	$ 347,091	$ 92,618	$ 100,811	1,450,311
Cash and cash equivalents						40,855
Marketable securities						420
Receivables and other assets						102,156
Development in progress						17,603
Unimproved land						5,036
Mortgage loans receivable, net of allowance						528
Total Assets						$ 1,616,909

As of April 30, 2008	Multi-Family Residential	Commercial-Office	Commercial-Medical	Commercial-Industrial	Commercial-Retail	Total
			(in thousands)			
Segment assets						
Property owned	$ 510,697	$ 556,712	$ 359,986	$ 104,060	$ 116,804	$ 1,648,259
Less accumulated depreciation/amortization	(101,964)	(58,095)	(32,466)	(10,520)	(16,334)	(219,379)
Total property owned	$ 408,733	$ 498,617	$ 327,520	$ 93,540	$ 100,470	1,428,880
Cash and cash equivalents						53,481
Marketable securities						420

Receivables and other assets	107,947
Development in progress	22,856
Unimproved land	3,901
Mortgage loans receivable, net of allowance	541
Total Assets	$ 1,618,026

NOTE 6 • COMMITMENTS AND CONTINGENCIES

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

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

Purchase Options. The Company has granted options to purchase certain IRET properties to tenants in these properties, under lease agreements. In general, the options grant the tenant the right to purchase the property at the greater of such property's appraised value or an annual compounded increase of a specified percentage of the initial cost of the property to IRET. As of October 31, 2008, the total property cost of the 26 properties subject to purchase options was approximately $202.0 million, and the total gross rental revenue from these properties was approximately $9.5 million for the six months ended October 31, 2008.

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

Restrictions on Taxable Dispositions. Approximately 131 of IRET's properties, consisting of approximately 7.3 million square feet of the Company's combined commercial segments' properties and 4,101 apartment units, are subject to restrictions on taxable dispositions under agreements entered into with some of the sellers or contributors of the properties. The real estate investment amount of these properties (net of accumulated depreciation) was approximately $886.1 million at October 31, 2008. The restrictions on taxable dispositions are effective for varying periods. The terms of these agreements generally prevent the Company from selling the properties in taxable transactions. The Company does not believe that the agreements materially affect the conduct of the Company's business or decisions whether to dispose of restricted properties during the restriction period because the Company generally holds these and the Company's other properties for investment purposes, rather than for sale. Historically, however, where IRET has deemed it to be in the shareholders' best interests to dispose of restricted properties, it has done so through transactions structured as tax-deferred transactions under Section 1031 of the Internal Revenue Code.

Joint Venture Buy/Sell Options. Certain of IRET's joint venture agreements contain buy/sell options in which each party under certain circumstances has the option to acquire the interest of the other party, but do not generally require that the Company buy its partners' interests. IRET has one joint venture which allows IRET's unaffiliated partner, at its election, to require that IRET buy its interest at a purchase price to be determined by an appraisal conducted in accordance with the terms of the agreement, or at a negotiated price. The Company is not aware of any intent of the partners to exercise these options.

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

IRET Corporate Plaza: During fiscal year 2007, the Company purchased an unimproved parcel of land in Minot, North Dakota for approximately $1.8 million. The Company is constructing a mixed-use project on this site, consisting of 71 apartments and 60,100 rentable square feet of office and retail space. The Company will move its Minot, North Dakota offices to this location, occupying approximately one-third of the proposed office/retail space. Apartment marketing at the project commenced in November 2008. Current estimates are that the commercial portion of the project will be completed in the third quarter of the Company's fiscal year 2009. The expected total cost of the project is approximately $20.7 million. As of October 31, 2008, the Company has incurred approximately $16.9 million of the estimated construction cost of this project.

Construction interest capitalized for the three month periods ended October 31, 2008 and 2007, respectively, was approximately $355,000 and $23,000 for development projects completed and in progress. Construction interest capitalized for the six month periods ended October 31, 2008 and 2007, respectively, was approximately $698,000 and $31,000 for development projects completed and in progress.

NOTE 7 • DISCONTINUED OPERATIONS

SFAS No. 144, Accounting for the Impairment or Disposal of Long Lived Assets, requires the Company to report in discontinued operations the results of operations of a property that has either been disposed of or is classified as held for sale. It also requires that any gains or losses from the sale of a property be reported in discontinued operations. There were no properties classified as discontinued operations during the six months ended October 31, 2008. The following information shows the effect on net income, net of minority interest, and the gains or losses from the sale of properties classified as discontinued operations for the three months and six months ended October 31, 2007.

	Three Months Ended October 31 (in thousands) 2007	Six Months Ended October 31 2007
REVENUE		
Real estate rentals	$ 63	$ 130
Tenant reimbursements	0	2
TOTAL REVENUE	63	132
EXPENSES		
Depreciation/amortization related to real estate investments	13	29
Utilities	10	18
Maintenance	5	10
Real estate taxes	8	18
Insurance	1	2
Property management expenses	8	15
TOTAL EXPENSES	45	92
Income before minority interest	18	40
Minority interest portion of operating partnership income	(4)	(11)
Discontinued operations, net of minority interest	$ 14	$ 29

NOTE 8 • ACQUISITIONS

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

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

During the three months ended October 31, 2008, IRET completed the remaining interior work and tenant improvements in its approximately 31,643 square foot addition to the Company's Southdale Medical Building in Edina, Minnesota. The cost of the expansion project was approximately $6.5 million, excluding relocation, tenant improvement and leasing costs incurred to relocate tenants in the existing facility. Also during the second quarter of fiscal year 2009, IRET completed construction of an approximately 56,239 square foot medical office building and adjoining parking ramp next to the Company's existing five-story medical office building located at 2828 Chicago Avenue in Minneapolis, Minnesota. The new medical office building and adjoining parking ramp cost approximately $11.3 million to construct.

The following table details the Company's acquisitions and development projects placed in-service during the six months ended October 31, 2008:

	(in thousands)			
Acquisitions	Land	Building	Intangible Assets	Acquisition Cost
Multi-Family Residential				
33-unit Minot Westridge Apartments – Minot, ND	$ 67	$ 1,887	$ 0	$ 1,954
12-unit Minot Fairmont Apartments – Minot, ND	28	337	0	365
4-unit Minot 4th Street Apartments – Minot, ND	15	74	0	89
3-unit Minot 11th Street Apartments – Minot, ND	11	53	0	64
36-unit Evergreen Apartments – Isanti, MN	380	2,720	0	3,100
	501	5,071	0	5,572
Commercial Property - Office				
22,500 sq. ft. Bismarck 715 E. Broadway – Bismarck, ND	389	1,267	255	1,911
	389	1,267	255	1,911
Commercial Property - Medical				
56,239 sq. ft. 2828 Chicago Avenue – Minneapolis, MN*	727	11,319	0	12,046
31,643 sq. ft. Southdale Medical Expansion (6545 France) – Edina, MN**	0	6,473	0	6,473
	727	17,792	0	18,519
Unimproved Land				
Bismarck 2130 S. 12th Street – Bismarck, ND	576	0	0	576
Bismarck 700 E. Main – Bismarck ND	314	0	0	314
	890	0	0	890
Total Property Acquisitions	$ 2,507	$ 24,130	$ 255	$ 26,892

* Development property placed in service September 16, 2008.

** Development property placed in service September 17, 2008.

NOTE 9 • SUBSEQUENT EVENTS

Common and Preferred Share Distributions. On November 19, 2008, the Company's Board of Trustees declared a regular quarterly distribution of 16.95 cents per share and unit on the Company's common shares of beneficial interest and limited partnership units of IRET Properties, payable January 14, 2009, to common shareholders and unitholders of record on January 2, 2009. Also on November 19, 2008, the Company's Board of Trustees declared a distribution of 51.56 cents per share on the Company's preferred shares of beneficial interest, payable December 31, 2008, to preferred shareholders of record on December 15, 2008.

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

The following discussion and analysis should be read in conjunction with the unaudited condensed consolidated financial statements included in this report, as well as the Company's audited financial statements for the fiscal year ended April 30, 2008, which are included in the Company's Annual Report on Form 10-K, filed with the SEC.

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

Overview. IRET is a self-advised equity REIT engaged in owning and operating income-producing real estate properties. Our investments include multi-family residential properties and commercial office, industrial, medical and retail properties located primarily in the upper Midwest states of Minnesota and North Dakota. Our properties are diversified by type and location. As of October 31, 2008, our real estate portfolio consisted of 77 multi-family residential properties containing 9,564 apartment units and having a total real estate investment amount net of accumulated depreciation of $412.4 million, and 165 commercial properties containing approximately 11.6 million square feet of leasable space. Our commercial properties consist of:

- 66 office properties containing approximately 5.0 million square feet of leasable space and having a total real estate investment amount net of accumulated depreciation of $497.4 million;
- 49 medical properties (including senior housing) containing approximately 2.4 million square feet of leasable space and having a total real estate investment amount net of accumulated depreciation of $347.1 million;
- 17 industrial properties containing approximately 2.8 million square feet of leasable space and having a total real estate investment amount net of accumulated depreciation of $92.6 million; and
- 33 retail properties containing approximately 1.5 million square feet of leasable space and having a total real estate investment amount net of accumulated depreciation of $100.8 million.

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

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

Critical Accounting Policies. In preparing the condensed consolidated financial statements management has made estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates. A summary of the Company's critical accounting policies is included in the Company's Annual Report on Form 10-K for the fiscal year ended April 30, 2008, in Management's Discussion and Analysis of Financial Condition and Results of Operations. There have been no significant changes to those policies during the first six months of fiscal year 2009.

RECENT ACCOUNTING PRONOUNCEMENTS

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

RESULTS OF OPERATIONS FOR THE THREE MONTHS AND SIX MONTHS ENDED OCTOBER 31, 2008 AND 2007

REVENUES

Total IRET revenues for the second quarter of fiscal year 2009 were $59.6 million, compared to $54.2 million recorded in the second quarter of the prior fiscal year. This is an increase of $5.4 million or 10.0%. Revenues for the six months ended October 31, 2008 were $118.4 million compared to $107.8 million in the six months ended October

31, 2007. This is an increase of $10.6 million or 9.8%. This increase in revenue resulted primarily from the additional investments in real estate made by IRET during fiscal years 2008 and 2009, as well as other factors shown by the following analysis:

	(in thousands)	
	Increase in Total Revenue Three Months ended October 31, 2008	Increase in Total Revenue Six Months ended October 31, 2008
Rent in Fiscal 2009 from 24 properties acquired in Fiscal 2008 in excess of that received in Fiscal 2008 from the same 24 properties	$ 4,551	$ 9,583
Rent from 7 properties acquired in Fiscal 2009	398	469
Increase in rental income on stabilized properties primarily due to a net increase in rental receipts	413	583
Net increase in total revenue	$ 5,362	$ 10,635

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NET OPERATING INCOME

The following tables report segment financial information. We measure the performance of our segments based on net operating income ("NOI"), which we define as total revenues less property operating expenses and real estate taxes. We believe that NOI is an important supplemental measure of operating performance for a REIT's operating real estate because it provides a measure of core operations that is unaffected by depreciation, amortization, financing and general and administrative expense. NOI does not represent cash generated by operating activities in accordance with generally accepted accounting principles ("GAAP") and should not be considered an alternative to net income, net income available for common shareholders or cash flow from operating activities as a measure of financial performance.

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

The tables also show net operating income by reportable operating segment on a stabilized property and non-stabilized property basis. Stabilized properties are properties owned and in operation for the entirety of the periods being compared (including properties that were redeveloped or expanded during the periods being compared, with properties purchased or sold during the periods being compared excluded from the stabilized property category). This comparison allows the Company to evaluate the performance of existing properties and their contribution to net income. Management believes that measuring performance on a stabilized property basis is useful to investors because it enables evaluation of how the Company's properties are performing year over year. Management uses this measure to assess whether or not it has been successful in increasing net operating income, renewing the leases of existing tenants, controlling operating costs and appropriately handling capital improvements.

			(in thousands)			
Three Months Ended October 31, 2008	Multi-Family Residential	Commercial-Office	Commercial-Medical	Commercial-Industrial	Commercial-Retail	Total
Real estate revenue	$ 19,402	$ 20,723	$ 12,960	$ 2,975	$ 3,513	$ 59,573
Real estate expenses						
Utilities	1,714	2,108	665	24	96	4,607
Maintenance	2,655	2,564	1,004	114	248	6,585
Real estate taxes	1,929	3,390	1,103	529	536	7,487