

INVESTORS REAL ESTATE TRUST
Form 10-Q
December 11, 2006

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

Form 10-Q

**Quarterly Report under Section 13 or 15(d)
of the Securities Exchange Act of 1934**

For Quarter Ended October 31, 2006

Commission File Number 0-14851

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

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

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

**Post Office Box 1988
12 South Main Street
Minot, ND 58702-1988**
(Address of principal executive offices) (Zip code)
(701) 837-4738

(Registrant's telephone number, including area code)

N/A

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

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

Yes **No**

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (check one):

Large accelerated filer **Accelerated filer** **Non-accelerated filer**

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

Yes **No**

Registrant is a North Dakota Real Estate Investment Trust. As of December 4, 2006, it had 47,876,904 common shares of beneficial interest outstanding.

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PART I

ITEM 1. FINANCIAL STATEMENTS SECOND QUARTER FISCAL 2007

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

| | <i>(in thousands)</i> | |
|---|-----------------------|----------------|
| | October 31, 2006 | April 30, 2006 |
| ASSETS | | |
| Real estate investments | | |
| Property owned | \$ 1,434,922 | \$ 1,269,423 |
| Less accumulated depreciation | (163,583) | (148,607) |
| | 1,271,339 | 1,120,816 |
| Undeveloped land | 5,219 | 5,175 |
| Mortgage loans receivable, net of allowance | 410 | 409 |

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| | | |
|--|---------------------|---------------------|
| Total real estate investments | 1,276,968 | 1,126,400 |
| Other assets | | |
| Cash and cash equivalents | 67,872 | 17,485 |
| Marketable securities available-for-sale | 1,584 | 2,402 |
| Receivable arising from straight-lining of rents, net of allowance | 10,844 | 9,474 |
| Accounts receivable, net of allowance | 3,013 | 2,364 |
| Real estate deposits | 4,881 | 1,177 |
| Prepaid and other assets | 1,592 | 436 |
| Intangible assets, net of accumulated amortization | 35,155 | 26,449 |
| Tax, insurance, and other escrow | 6,084 | 8,893 |
| Property and equipment, net | 1,448 | 1,506 |
| Goodwill | 1,441 | 1,441 |
| Deferred charges and leasing costs, net | 11,347 | 9,288 |
| TOTAL ASSETS | \$ 1,422,229 | \$ 1,207,315 |

LIABILITIES AND SHAREHOLDERS' EQUITY

LIABILITIES

| | | |
|---------------------------------------|----------------|----------------|
| Accounts payable and accrued expenses | \$ 24,547 | \$ 24,223 |
| Revolving lines of credit | 0 | 3,500 |
| Mortgages payable | 935,809 | 765,890 |
| Investment certificates issued | 791 | 2,451 |
| Other | 1,078 | 1,075 |
| TOTAL LIABILITIES | 962,225 | 797,139 |

COMMITMENTS AND CONTINGENCIES (NOTE 6)

| | | |
|--|---------------|---------------|
| MINORITY INTEREST IN PARTNERSHIPS | 16,433 | 16,403 |
|--|---------------|---------------|

MINORITY INTEREST OF UNIT HOLDERS IN OPERATING PARTNERSHIP

| | | |
|--|----------------|----------------|
| | 156,840 | 104,213 |
| <i>(19,530,120 units at October 31, 2006 and 13,685,522 units at April 30, 2006)</i> | | |

SHAREHOLDERS' EQUITY

| | | |
|---|---------------------|---------------------|
| Preferred Shares of Beneficial Interest <i>(Cumulative redeemable preferred shares, no par value, 1,150,000 shares issued and outstanding at October 31, 2006 and April 30, 2006, aggregate liquidation preference of \$28,750,000)</i> | 27,317 | 27,317 |
| Common Shares of Beneficial Interest <i>(Unlimited authorization, no par value, 47,707,267 shares issued and outstanding at October 31, 2006, and 46,915,352 shares issued and outstanding at April 30, 2006)</i> | 346,632 | 339,384 |
| Accumulated distributions in excess of net income | (87,196) | (77,093) |
| Accumulated other comprehensive loss | (22) | (48) |
| Total shareholders' equity | 286,731 | 289,560 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | \$ 1,422,229 | \$ 1,207,315 |

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

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for the three months and six months ended October 31, 2006 and 2005

| | Three Months Ended | | Six Months Ended | |
|---|--|---------------|------------------|---------------|
| | October 31 | | October 31 | |
| | <i>(in thousands, except per share data)</i> | | | |
| | 2006 | 2005 | 2006 | 2005 |
| REVENUE | | | | |
| Real estate rentals | \$ 40,493 | \$ 35,916 | \$ 77,123 | \$ 69,678 |
| Tenant reimbursement | 8,469 | 7,229 | 16,472 | 14,597 |
| TOTAL REVENUE | 48,962 | 43,145 | 93,595 | 84,275 |
| OPERATING EXPENSE | | | | |
| Interest | 15,057 | 12,879 | 28,071 | 25,195 |
| Depreciation/amortization related to real estate investments | 11,068 | 9,314 | 21,051 | 18,434 |
| Utilities | 3,786 | 3,419 | 6,693 | 6,289 |
| Maintenance | 5,496 | 4,721 | 10,507 | 9,745 |
| Real estate taxes | 5,534 | 5,005 | 10,886 | 9,946 |
| Insurance | 585 | 663 | 1,162 | 1,326 |
| Property management expenses | 3,501 | 2,972 | 6,778 | 6,089 |
| Administrative expense | 990 | 912 | 1,897 | 1,829 |
| Advisory and trustee services | 68 | 58 | 140 | 106 |
| Other operating expenses | 335 | 266 | 615 | 553 |
| Amortization related to non-real estate investments | 241 | 164 | 458 | 311 |
| Loss on impairment of real estate investments | 190 | 0 | 520 | 0 |
| TOTAL OPERATING EXPENSE | 46,851 | 40,373 | 88,778 | 79,823 |
| Operating income | 2,111 | 2,772 | 4,817 | 4,452 |
| Non-operating income | 684 | 251 | 963 | 453 |
| Income before minority interest and discontinued operations and | | | | |
| gain on sale of other investments | 2,795 | 3,023 | 5,780 | 4,905 |
| (Loss) gain on sale of other investments | (36) | 0 | (36) | 1 |
| Minority interest portion of operating partnership income | (594) | (517) | (1,137) | (793) |
| Minority interest portion of other partnerships' loss (income) | (37) | (105) | (25) | (183) |
| Income from continuing operations | 2,128 | 2,401 | 4,582 | 3,930 |
| Discontinued operations, net of minority interest | 1,380 | 172 | 2,039 | 315 |
| NET INCOME | 3,508 | 2,573 | 6,621 | 4,245 |
| Dividends to preferred shareholders | (593) | (593) | (1,186) | (1,186) |
| NET INCOME AVAILABLE TO COMMON SHAREHOLDERS | | | | |
| Earnings per common share from continuing operations | \$.03 | \$.04 | \$.07 | \$.06 |
| Earnings per common share from discontinued operations | .03 | .00 | .04 | .01 |
| NET INCOME PER COMMON SHARE BASIC AND DILUTED | \$.06 | \$.04 | \$.11 | \$.07 |

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

INVESTORS REAL ESTATE TRUST AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY *(unaudited)*
for the six months ended October 31, 2006

(in thousands)

| | NUMBER OF PREFERRED SHARES | PREFERRED SHARES | NUMBER OF COMMON SHARES | COMMON SHARES | ACCUMULATED DISTRIBUTIONS IN EXCESS OF NET INCOME | CONSOLIDATED OTHER COMPREHENSIVE INCOME (LOSS) | TOTAL SHAREHOLDERS' EQUITY |
|---|-------------------------------------|---------------------|----------------------------------|------------------|---|--|----------------------------------|
| Balance May 1, 2006 | 1,150 | \$ 27,317 | 46,915 | \$ 339,384 | \$ (77,093) | \$ (48) | \$ 289,560 |
| Comprehensive Income | | | | | | | |
| Net income | | | | | 6,621 | | 6,621 |
| Unrealized gain on securities available-for- sale | | | | | | 26 | 26 |
| Total comprehensive income | | | | | | | 6,647 |
| Distributions common shares | | | | | (15,538) | | (15,538) |
| Distributions preferred shares | | | | | (1,186) | | (1,186) |
| Distribution reinvestment plan | | | 646 | 5,785 | | | 5,785 |
| Sale of shares | | | 19 | 175 | | | 175 |
| Redemption of units for common shares | | | 128 | 1,294 | | | 1,294 |
| Fractional shares repurchased | | | (1) | (6) | | | (6) |
| Balance October 31, 2006 | 1,150 | \$ 27,317 | 47,707 | \$ 346,632 | \$ (87,196) | \$ (22) | \$ 286,731 |

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, 2006 and 2005

| | <i>(in thousands)</i> | |
|---|-----------------------|-------------|
| | 2006 | 2005 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net Income | \$ 6,621 | \$ 4,245 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 22,058 | 19,417 |
| Minority interest portion of income | 1,796 | 1,095 |
| Gain on sale of real estate, land and other investments | (2,637) | (22) |
| Interest reinvested in investment certificates | 0 | 97 |
| Loss on impairment of real estate investments | 520 | 0 |
| Bad debt expense, net of recoveries | 145 | (25) |
| Changes in other assets and liabilities: | | |
| Increase in receivable arising from straight-lining of rents | (1,380) | (1,090) |
| Increase in accounts receivable | (798) | (546) |
| Increase in prepaid and other assets | (1,156) | (600) |
| Decrease in tax, insurance and other escrow | 2,809 | 2,378 |
| Increase in deferred charges and leasing costs | (3,100) | (1,899) |
| Increase (decrease) in accounts payable and accrued expenses | 324 | (3,000) |
| Net cash provided by operating activities | 25,202 | 20,050 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Proceeds from sale of marketable securities available-for-sale | 845 | 89 |
| (Proceeds) payments of real estate deposits | (3,704) | 2,205 |
| Principal proceeds on mortgage loans receivable | 11 | 200 |
| Purchase of marketable securities available-for-sale | 0 | (21) |
| Proceeds from sale of real estate and other investments | 13,174 | 444 |
| Payments for acquisitions and improvements of real estate investments | (121,287) | (68,858) |
| Net cash used by investing activities | (110,961) | (65,941) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds from sale of common shares, net of issue costs | 175 | 90 |
| Proceeds from mortgages payable | 229,014 | 74,876 |
| Proceeds from revolving line of credit | 15,500 | 0 |
| Proceeds from minority partner | 53 | 248 |
| Repurchase of fractional shares and minority interest units | (6) | (2) |
| Distributions paid to common shareholders, net of reinvestment | (10,157) | (9,602) |

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| | | |
|---|-----------|-----------|
| Distributions paid to preferred shareholders | (1,186) | (1,186) |
| Distributions paid to unitholders of operating partnership | (4,237) | (3,854) |
| Distributions paid to other minority partners | (49) | (34) |
| Redemption of investment certificates | (1,660) | (1,005) |
| Principal payments on mortgages payable | (72,261) | (9,777) |
| Principal payments on revolving line of credit and other debt | (19,040) | (40) |
| Net cash provided by financing activities | 136,146 | 49,714 |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 50,387 | 3,823 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD | 17,485 | 23,538 |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | \$ 67,872 | \$ 27,361 |

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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, 2006 and 2005

| | <i>(in thousands)</i> | |
|---|-----------------------|-----------|
| | 2006 | 2005 |
| SUPPLEMENTARY SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES FOR THE PERIOD | | |
| Distribution reinvestment plan | \$ 5,381 | \$ 5,198 |
| UPREIT distribution reinvestment plan | 404 | 391 |
| Other assets acquired | 0 | 50 |
| Real estate investment acquired through assumption of mortgage loans payable and accrual of costs | 13,166 | 0 |
| Assets acquired through the issuance of minority interest units in the operating partnership | 56,791 | 6,762 |
| Operating partnership units converted to shares | 1,294 | 1,927 |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION | | |
| Cash paid during the period for: | | |
| Interest on mortgages | 26,546 | 24,352 |
| Interest on investment certificates | 122 | 119 |
| Interest other | 770 | 72 |
| | \$ 27,438 | \$ 24,543 |

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

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INVESTORS REAL ESTATE TRUST AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)*
for the six months ended October 31, 2006 and 2005

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, 2006, IRET owned 67 multi-family residential properties with 8,934 apartment units and 150 commercial properties, consisting of office, medical, industrial and retail properties, totaling 9.7 million net rentable square feet. IRET conducts a majority of its business activities through its consolidated operating partnership, IRET Properties, a North Dakota Limited Partnership (the “Operating Partnership”), as well as through a number of other consolidated subsidiary entities.

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

NOTE 2 • BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

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

The accompanying condensed consolidated financial statements include the accounts of IRET and its interest in the Operating Partnership. The Company’s interest in the Operating Partnership was 71.0% and 77.4%, respectively, as of October 31, 2006, and April 30, 2006. 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 Form 8-K dated September 29, 2006, for the fiscal year ended April 30, 2006, 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, retroactive reclassifications that change prior year numbers have been made.

RECENT ACCOUNTING PRONOUNCEMENTS

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements*, (SFAS 157), which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. SFAS 157 is effective for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. We are currently evaluating the impact of adopting SFAS 157.

In September 2006, the SEC's staff issued Staff Accounting Bulletin (SAB) No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements*. This Bulletin provides guidance on the consideration of the effects of prior year misstatements in quantifying current year misstatements for the purpose of a materiality assessment. The guidance in SAB No. 108 must be applied to financial reports covering the first fiscal year ending after November 15, 2006. The Company is currently evaluating the guidance in this Bulletin.

In June 2006, FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109* (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006, and accordingly will be effective for the Company on May 1, 2007. We are currently evaluating the impact of adopting this Interpretation.

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, 2006 and 2005:

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| | Three Months Ended October 31 | | Six Months Ended October 31 | |
|--|----------------------------------|----------|--------------------------------|----------|
| | 2006 | 2005 | 2006 | 2005 |
| <i>(in thousands, except per share data)</i> | | | | |
| NUMERATOR | | | | |
| Income from continuing operations | \$ 2,128 | \$ 2,401 | \$ 4,582 | \$ 3,930 |
| Discontinued operations, net | 1,380 | 172 | 2,039 | 315 |
| Net income | 3,508 | 2,573 | 6,621 | 4,245 |
| Dividends to preferred shareholders | (593) | (593) | (1,186) | (1,186) |
| Numerator for basic earnings per share net income available to common shareholders | 2,915 | 1,980 | 5,435 | 3,059 |
| Minority interest portion of operating partnership income | 1,038 | 595 | 1,771 | 912 |
| Numerator for diluted earnings per share | \$ 3,953 | \$ 2,575 | \$ 7,206 | \$ 3,971 |
| DENOMINATOR | | | | |
| Denominator for basic earnings per share - weighted average shares | 47,408 | 45,762 | 47,225 | 45,493 |
| Effect of dilutive securities convertible operating partnership units | 15,757 | 13,454 | 14,760 | 13,352 |
| Denominator for diluted earnings per share | 63,165 | 59,216 | 61,985 | 58,845 |
| BASIC | | | | |
| Earnings per common share from continuing operations basic and diluted | \$.03 | \$.04 | \$.07 | \$.06 |
| | .03 | .00 | .04 | .01 |

Earnings per common share from discontinued operations
basic and diluted

| | | | | |
|---|--------|--------|--------|--------|
| NET INCOME PER COMMON SHARE BASIC AND DILUTED | \$.06 | \$.04 | \$.11 | \$.07 |
|---|--------|--------|--------|--------|

NOTE 4 • SHAREHOLDERS' EQUITY

During the six months ended October 31, 2006, the Company issued approximately 645,493 common shares, pursuant to the Company's distribution reinvestment plan, for total value of approximately \$5.8 million. In addition, as of October 31, 2006, approximately 127,576 Units have been converted to common shares during fiscal year 2007, with a total value of \$1.3 million included in shareholders' equity.

NOTE 5 • SEGMENT REPORTING

IRET is engaged in acquiring, owning and leasing multi-family residential and commercial real estate. Each property is considered a separate operating segment. Each operating segment on a stand-alone basis is less than 10% of the revenues, profit or loss, and assets of the combined reportable segments, and meets the aggregation criteria under SFAS 131. IRET reports its results in five segments: multi-family residential properties, and office, industrial (including miscellaneous commercial properties), retail, and medical (including assisted living facilities) properties.

The revenues, expenses and profit (loss) for these reportable segments are summarized as follows for the three and six-month periods ended October 31, 2006 and 2005, along with reconciliations to the condensed consolidated financial statements:

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Three Months Ended October 31, 2006

| | <i>(in thousands)</i> | | | | | | |
|--|--------------------------|-------------------|--------------------|-----------------------|-------------------|--|-----------|
| | Multi-Family Residential | Commercial-Office | Commercial-Medical | Commercial-Industrial | Commercial-Retail | | Total |
| Real Estate Revenue | \$ 17,140 | \$ 17,796 | \$ 8,638 | \$ 1,844 | \$ 3,544 | | \$ 48,962 |
| Expenses | | | | | | | |
| Mortgage interest | 4,683 | 4,921 | 2,821 | 561 | 1,047 | | 14,033 |
| Depreciation/amortization related to real estate investments | 3,042 | 4,836 | 2,069 | 395 | 669 | | 11,011 |
| Utilities | 1,426 | 1,719 | 519 | 16 | 106 | | 3,786 |
| Maintenance | 2,376 | 2,221 | 645 | 36 | 218 | | 5,496 |
| Real estate taxes | 1,790 | 2,582 | 540 | 95 | 527 | | 5,534 |
| Insurance | 276 | 183 | 67 | 17 | 42 | | 585 |
| Property management | 2,013 | 842 | 407 | 31 | 208 | | 3,501 |
| Total segment expense | 15,606 | 17,304 | 7,068 | 1,151 | 2,817 | | 43,946 |
| Segment operating profit (loss) | \$ 1,534 | \$ 492 | \$ 1,570 | \$ 693 | \$ 727 | | 5,016 |
| Reconciliation to consolidated operations | | | | | | | |
| Interest, discounts and fee revenue | | | | | | | 684 |

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| | |
|---|----------|
| Amortization and other interest expense | (1,024) |
| Depreciation furniture and fixtures | (57) |
| Administrative, advisory and trustee fees | (1,058) |
| Operating expenses | (335) |
| Amortization related to non-real estate investments and related party costs | (241) |
| Loss on impairment (commercial - retail segment)* | (190) |
| Income before minority interest and discontinued operations and gain on sale of other investments | \$ 2,795 |

* During the second quarter ended October 31, 2006, impairment of two of the Company's commercial retail properties occurred. Accordingly, the Company recorded a loss of \$190,000 to reduce the carrying value of these properties to fair market value.

Three Months Ended October 31, 2005

| | <i>(in thousands)</i> | | | | | |
|---|---------------------------------|--------------------------|---------------------------|------------------------------|--------------------------|--------------|
| | Multi-Family Residential | Commercial-Office | Commercial-Medical | Commercial-Industrial | Commercial-Retail | Total |
| Real Estate Revenue | \$ 15,985 | \$ 14,241 | \$ 7,899 | \$ 1,594 | \$ 3,426 | \$ 43,145 |
| Expenses | | | | | | |
| Mortgage interest | 4,597 | 3,724 | 2,665 | 563 | 1,035 | 12,584 |
| Depreciation/amortization related to real estate investments | 2,901 | 3,520 | 1,783 | 382 | 658 | 9,244 |
| Utilities | 1,614 | 1,251 | 460 | 15 | 79 | 3,419 |
| Maintenance | 2,078 | 1,745 | 678 | 38 | 182 | 4,721 |
| Real estate taxes | 1,834 | 1,993 | 557 | 177 | 444 | 5,005 |
| Insurance | 353 | 164 | 79 | 20 | 47 | 663 |
| Property management | 1,794 | 628 | 392 | 23 | 135 | 2,972 |
| Total segment expense | 15,171 | 13,025 | 6,614 | 1,218 | 2,580 | 38,608 |
| Segment operating profit | \$ 814 | \$ 1,216 | \$ 1,285 | \$ 376 | \$ 846 | \$ 4,537 |
| Reconciliation to consolidated operations | | | | | | |
| Interest, discounts and fee revenue | | | | | | 251 |
| Amortization and other interest expense | | | | | | (295) |
| Depreciation furniture and fixtures | | | | | | (70) |
| Administrative, advisory and trustee fees | | | | | | (970) |
| Operating expenses | | | | | | (266) |
| Amortization related to non-real estate investments and related party costs | | | | | | (164) |
| Income before minority interest and discontinued operations and gain on sale of other investments | | | | | | \$ 3,023 |

Six Months Ended October 31, 2006

| | <i>(in thousands)</i> | | | | | |
|---------------------|---------------------------------|--------------------------|---------------------------|------------------------------|--------------------------|--------------|
| | Multi-Family Residential | Commercial-Office | Commercial-Medical | Commercial-Industrial | Commercial-Retail | Total |
| Real Estate Revenue | \$ 33,366 | \$ 32,624 | \$ 17,088 | \$ 3,579 | \$ 6,938 | \$ 93,595 |
| Expenses | | | | | | |

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| | | | | | | |
|---|----------|----------|----------|----------|----------|----------|
| Mortgage interest | 9,152 | 8,743 | 5,620 | 1,120 | 2,045 | 26,680 |
| Depreciation/amortization related to real estate investments | 5,977 | 8,714 | 4,104 | 790 | 1,348 | 20,933 |
| Utilities | 2,780 | 2,786 | 916 | 23 | 188 | 6,693 |
| Maintenance | 4,717 | 3,977 | 1,253 | 91 | 469 | 10,507 |
| Real estate taxes | 3,589 | 4,812 | 1,140 | 293 | 1,052 | 10,886 |
| Insurance | 559 | 345 | 137 | 35 | 86 | 1,162 |
| Property management | 3,917 | 1,586 | 840 | 60 | 375 | 6,778 |
| Total segment expense | 30,691 | 30,963 | 14,010 | 2,412 | 5,563 | 83,639 |
| Segment operating profit | \$ 2,675 | \$ 1,661 | \$ 3,078 | \$ 1,167 | \$ 1,375 | 9,956 |
| Reconciliation to consolidated operations | | | | | | |
| Interest, discounts and fee revenue | | | | | | 963 |
| Amortization and other interest expense | | | | | | (1,391) |
| Depreciation furniture and fixtures | | | | | | (118) |
| Administrative, advisory and trustee fees | | | | | | (2,037) |
| Operating expenses | | | | | | (615) |
| Amortization related to non-real estate investments and related party costs | | | | | | (458) |
| Loss on impairment (commercial - retail segment)* | | | | | | (520) |
| Income before minority interest and discontinued operations and gain on sale of other investments | | | | | | \$ 5,780 |

* During the six months ended October 31, 2006, impairment of four of the Company's commercial retail properties occurred. Accordingly, the Company recorded a loss of \$520,000 to reduce the carrying value of these properties to fair market value.

Six Months Ended October 31, 2005

| | <i>(in thousands)</i> | | | | | |
|--|--------------------------|-------------------|--------------------|-----------------------|-------------------|-----------|
| | Multi-Family Residential | Commercial-Office | Commercial-Medical | Commercial-Industrial | Commercial-Retail | Total |
| Real Estate Revenue | \$ 31,275 | \$ 28,199 | \$ 14,755 | \$ 3,159 | \$ 6,887 | \$ 84,275 |
| Expenses | | | | | | |
| Mortgage interest | 9,149 | 7,288 | 4,917 | 1,129 | 2,054 | 24,537 |
| Depreciation/amortization related to real estate investments | 5,769 | 7,146 | 3,325 | 769 | 1,318 | 18,327 |
| Utilities | 3,031 | 2,338 | 723 | 27 | 170 | 6,289 |
| Maintenance | 4,472 | 3,517 | 1,181 | 74 | 501 | 9,745 |
| Real estate taxes | 3,648 | 3,939 | 1,098 | 379 | 882 | 9,946 |
| Insurance | 714 | 331 | 146 | 41 | 94 | 1,326 |
| Property management | 3,734 | 1,217 | 801 | 57 | 280 | 6,089 |
| Total segment expense | 30,517 | 25,776 | 12,191 | 2,476 | 5,299 | 76,259 |
| Segment operating profit | \$ 758 | \$ 2,423 | \$ 2,564 | \$ 683 | \$ 1,588 | 8,016 |
| Reconciliation to consolidated operations | | | | | | |
| Interest, discounts and fee revenue | | | | | | 453 |
| Amortization and other interest expense | | | | | | (658) |
| Depreciation furniture and fixtures | | | | | | (107) |
| Administrative, advisory and trustee fees | | | | | | (1,935) |

| | |
|---|----------|
| Operating expenses | (553) |
| Amortization related to non-real estate investments and related party costs | (311) |
| Income before minority interest and discontinued operations and gain on sale of other investments | \$ 4,905 |

Segment Assets and Accumulated Depreciation

Segment assets are summarized as follows as of October 31, 2006, and April 30, 2006, along with reconciliations to the condensed consolidated financial statements:

October 31, 2006

| | <i>(in thousands)</i> | | | | | |
|-------------------------------|-----------------------------|-----------------------|------------------------|---------------------------|-----------------------|--------------|
| | Multi-Family Residential | Commercial- Office | Commercial- Medical | Commercial- Industrial | Commercial- Retail | Total |
| Segment Assets | | | | | | |
| Property owned | \$ 475,455 | \$ 521,448 | \$ 264,998 | \$ 59,706 | \$ 113,315 | \$ 1,434,922 |
| Less accumulated depreciation | (84,462) | (37,562) | (21,399) | (7,384) | (12,776) | (163,583) |
| Total property owned | \$ 390,993 | \$ 483,886 | \$ 243,599 | \$ 52,322 | \$ 100,539 | 1,271,339 |
| Cash and cash equivalents | | | | | | 67,872 |
| Marketable securities | | | | | | 1,584 |
| Receivable and other assets | | | | | | 75,805 |
| Undeveloped land | | | | | | 5,219 |
| Mortgage receivables | | | | | | 410 |
| Total Assets | | | | | | \$ 1,422,229 |

April 30, 2006

| | <i>(in thousands)</i> | | | | | |
|-------------------------------|-----------------------------|-----------------------|------------------------|---------------------------|-----------------------|--------------|
| | Multi-Family Residential | Commercial- Office | Commercial- Medical | Commercial- Industrial | Commercial- Retail | Total |
| Segment Assets | | | | | | |
| Property owned | \$ 452,251 | \$ 383,280 | \$ 263,300 | \$ 59,583 | \$ 111,009 | \$ 1,269,423 |
| Less accumulated depreciation | (79,150) | (32,193) | (18,954) | (6,625) | (11,685) | (148,607) |
| Total property owned | \$ 373,101 | \$ 351,087 | \$ 244,346 | \$ 52,958 | \$ 99,324 | 1,120,816 |
| Cash and cash equivalents | | | | | | 17,485 |
| Marketable securities | | | | | | 2,402 |
| Receivable and other assets | | | | | | 61,028 |

| | |
|----------------------|--------------|
| Undeveloped land | 5,175 |
| Mortgage receivables | 409 |
| Total Assets | \$ 1,207,315 |

NOTE 6 • COMMITMENTS AND CONTINGENCIES

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

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

Purchase Options. The Company has granted options to purchase certain Company properties to various parties. In general, the options grant the parties the right to purchase these properties at the greater of their appraised value or an annual compounded increase of 2% to 2.5% of the initial cost of the property to the Company. As of October 31, 2006, the total investment in the 17 properties subject to purchase options was approximately \$116.5 million, and the gross rental revenue from these properties was approximately \$2.9 million for the three months ended October 31, 2006 and \$5.8 million for the six months ended October 31, 2006.

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 126 of our properties, consisting of approximately 5.4 million square feet of our combined commercial segments' properties and 3,897 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 \$681 million at October 31, 2006. The restrictions on taxable dispositions are effective for varying periods. The terms of these agreements generally prevent us from selling the properties in taxable transactions. We do not believe that the agreements materially affect the conduct of our business or our decisions whether to dispose of restricted properties during the restriction period because we generally hold these and our other properties for investment purposes, rather than for sale. Historically, however, where we have deemed it to be in our shareholders' best interests to dispose of restricted properties, we have done so through transactions structured as tax-deferred transactions under Section 1031 of the Internal Revenue Code.

Joint Venture Buy/Sell Options. Certain of our 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 we buy our partners' interests. We have one joint venture which allows our unaffiliated partner, at its election, to require that we 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. We are not aware of any intent of the partners to exercise these options.

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Development Projects. The Company has certain funding commitments under contracts for property development and renovation projects. As of October 31, 2006, IRET's funding commitments include the following:

Stevens Point Assisted Living: During fiscal year 2006 IRET purchased an existing senior housing complex and adjoining vacant parcel of land in Stevens Point, Wisconsin. IRET is committed to fund construction of an expansion to the existing facility on the adjoining parcel of land, to be leased to the tenant of the existing senior housing complex. The construction costs to be paid by IRET are capped at approximately \$10.5 million. Construction on this project began in May 2006 and as of October 31, 2006 IRET has funded approximately \$2 million of the construction cost.

Fox River Senior Living Project: During fiscal year 2006 IRET purchased a partially-completed senior housing project and adjoining vacant land located in Grand Chute, Wisconsin. IRET has committed to fund the completion of eight senior living villas and the construction of ten new senior living cottages. The construction costs to be paid by IRET are capped at approximately \$2.2 million. Construction on this project began in August 2006 and as of October 31, 2006 IRET has funded approximately \$29,000 of the construction cost.

St. Michael Medical Clinic: In July 2006 construction commenced on a medical clinic located on land owned by IRET in St. Michael, Minnesota. IRET has committed to fund \$2.8 million in project costs. Approximately \$1 million has been funded as of October 31, 2006. The clinic has a targeted completion date of February 1, 2007.

Pending Acquisitions and Dispositions. As of October 31, 2006, the Company had signed an agreement to acquire an approximately 71,000 rentable square foot office building in Highlands Ranch, Colorado, for a purchase price of approximately \$12,250,000. The Company closed on this purchase in November 2006. See Note 9, Subsequent Events, for additional information. As of October 31, 2006, the Company had signed agreements to sell a small retail property in Faribault, Minnesota and an apartment complex in Fargo, North Dakota, for sales prices totaling approximately \$6,775,000. These pending dispositions are subject to various closing conditions and contingencies, and no assurance can be given that these dispositions will be completed.

NOTE 7 • DISCONTINUED OPERATIONS

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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 held for sale as of October 31, 2006 or 2005. 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, 2006 and 2005:

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| | Three Months Ended October 31 2006 | Three Months Ended October 31 2005 <i>(in thousands)</i> | Six Months Ended October 31 2006 | Six Months Ended October 31 2005 |
|--|---|---|---|---|
| REVENUE | | | | |
| Real estate rentals | \$ 58 | \$ 539 | \$ 326 | \$ 1,083 |
| Tenant reimbursements | 4 | 74 | 8 | 153 |
| TOTAL REVENUE | 62 | 613 | 334 | 1,236 |
| OPERATING EXPENSE | | | | |
| Interest | 21 | 145 | 102 | 286 |
| Depreciation/amortization related to real estate investments | 10 | 96 | 75 | 221 |
| Utilities | 3 | 14 | 11 | 23 |
| Maintenance | 35 | 20 | 67 | 90 |
| Real estate taxes | 12 | 68 | 39 | 129 |
| Insurance | 1 | 7 | 4 | 13 |
| Property management expenses | 5 | 26 | 25 | 48 |
| Administrative expense | 1 | 2 | 2 | 1 |
| Other operating expenses | 3 | 6 | 9 | 12 |
| TOTAL OPERATING EXPENSE | 91 | 384 | 334 | 823 |
| Operating (loss) income | (29) | 229 | 0 | 413 |
| Non-operating income | 0 | 0 | 0 | 0 |
| (Loss) income before minority interest and gain on sale of other investments | (29) | 229 | 0 | 413 |
| Minority interest portion of operating partnership income | (444) | (78) | (634) | (119) |
| Gain on sale of discontinued operations | 1,853 | 21 | 2,673 | 21 |
| Discontinued operations, net of minority interest | \$ 1,380 | \$ 172 | \$ 2,039 | \$ 315 |

NOTE 8 • ACQUISITIONS AND DISPOSITIONS

Acquisitions and Dispositions During the Six Months Ended October 31, 2006:

During the second quarter of fiscal year 2007, IRET acquired three parcels of vacant land adjacent to existing IRET properties; an apartment complex; and a portfolio of nine office properties consisting of 15 buildings, for a total purchase price of approximately \$157.2 million, excluding closing costs. The Company sold a parcel of vacant land; a small office building; an apartment complex; and four small retail properties, for a total sale price of approximately \$8.4 million during the three months ended October 31, 2006.

During the first quarter of fiscal year 2007, the Company acquired a small retail property, two parcels of vacant land, an apartment complex, and a senior housing complex with adjoining land for a total purchase price of approximately

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\$11.2 million, excluding closing costs. The Company also completed construction on a commercial retail property for a total cost of approximately \$2.1 million. The Company disposed of an assisted living facility and a small retail property during the first quarter of fiscal year 2007, for a total sales price of approximately \$4.9 million.

The following table details the Company's acquisitions and dispositions during the six months ended October 31, 2006:

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| <u>Acquisitions</u> | <i>(in thousands)</i> | | |
|--|-------------------------|----|---------|
| | Acquisition Cost | | |
| <i>Multi-Family Residential</i> | | | |
| Arbors Apartments | Sioux City, NE | \$ | 7,000 |
| Quarry Ridge Apartments | Rochester, MN | | 14,570 |
| <i>Commercial Property Office</i> | | | |
| Pacific Hills | Omaha, NE | | 21,906 |
| Corporate Center West | Omaha, NE | | 21,497 |
| Farnam Executive Center | Omaha, NE | | 12,853 |
| Miracle Hills One | Omaha, NE | | 11,950 |
| Woodlands Plaza IV | Maryland Heights, MO | | 16,502 |
| Riverport | Maryland Heights, MO | | 14,546 |
| Timberlands | Leawood, KS | | 5,840 |
| Flagship | Eden Prairie, MN | | 26,094 |
| Gateway Corporate Center | Woodbury, MN | | 9,612 |
| <i>Commercial Property Medical (including assisted living)</i> | | | |
| Fox River Cottages | Grand Chute, WI | | 3,200 |
| <i>Commercial Property Retail</i> | | | |
| Dakota West Plaza | Minot, ND | | 625 |
| Weston Walgreens | Weston, WI* | | 2,144 |
| <i>Undeveloped Property</i> | | | |
| Monticello Undeveloped Parcel (City) | Monticello, MN | | 5 |
| St. Michaels Undeveloped | St. Michael, MN | | 320 |
| Monticello Undeveloped Parcel (Other) | Monticello, MN | | 78 |
| Weston Undeveloped | Weston, WI | | 810 |
| Quarry Ridge Undeveloped | Rochester MN | | 930 |
| Total Property Acquisitions | | \$ | 170,482 |

* Development property placed in service May 1, 2006.

| <u>Dispositions</u> | <i>(in thousands)</i> | | |
|---------------------------------|-----------------------------|-------------|------------------|
| | Book Value and Sales | | |
| | Sales Price | Cost | Gain/Loss |
| <i>Multi-Family Residential</i> | | | |
| Clearwater Apartments | Boise, ID | \$ 4,000 | \$ 3,369 |
| | | | \$ 631 |

| | | | | |
|--|-------------------------|-----------|-----------|----------|
| <i>Commercial Property Office</i> | | | | |
| Greenwood Office | Greenwood, MN | 1,500 | 961 | 539 |
| <i>Commercial Property Medical (Assisted Living)</i> | | | | |
| Wedgewood Sweetwater | Lithia Springs, GA | 4,550 | 3,823 | 727 |
| <i>Commercial Property Retail</i> | | | | |
| Moundsview Bakery | Mounds View, MN | 380 | 287 | 93 |
| Howard Lake C-Store | Winsted, MN | 550 | 374 | 176 |
| Wilmar Sam Goody | Wilmar, MN | 450 | 409 | 41 |
| Winsted C-Store | Winsted, MN | 190 | 214 | (24) |
| Buffalo Strip Center | Buffalo, MN | 800 | 567 | 233 |
| <i>Undeveloped Property</i> | | | | |
| IGH Land | Inver Grove Heights, MN | 900 | 613 | 287 |
| Total Property Dispositions | | \$ 13,320 | \$ 10,617 | \$ 2,703 |

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NOTE 9 • SUBSEQUENT EVENTS

Common and Preferred Share Distributions. On November 15, 2006, the Company's Board of Trustees declared a distribution of 16.55 cents per share and unit on the Company's common shares of beneficial interest and limited partnership units of IRET Properties, payable January 12, 2007, to common shareholders and unitholders of record on January 2, 2007. Also on November 15, 2006, 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 January 2, 2007, to preferred shareholders of record on December 15, 2006.

Completed Acquisition. On November 27, 2006, the Company closed on its acquisition of the approximately 71,000 rentable square foot, 12-story single-tenant Highlands Ranch I office building located in Highland Ranch, Colorado. The Company paid a purchase price of \$12,250,000 for this property.

Pending Acquisitions and Dispositions. Subsequent to the end of the second quarter of fiscal year 2007, the Company entered into agreements to acquire a single-story industrial building located in Bloomington, Minnesota; a single story office/warehouse building located in Roseville, Minnesota; and an eight-building apartment complex located in St. Cloud, Minnesota, for purchase prices totaling approximately \$24.8 million. These acquisitions are expected to close in the third and fourth quarters of fiscal year 2007, but they are subject to various closing conditions and contingencies, and no assurance can be given that these acquisitions will be completed.

Subsequent to the end of the second quarter of fiscal year 2007, the tenant in three of the Company's Edgewood Vista assisted living facilities, located in, respectively, Fremont, Nebraska; Hastings, Nebraska; and Kalispell, Montana, exercised its options to purchase these properties. These pending dispositions are subject to various closing conditions and contingencies, and no assurance can be given that these transactions will be completed.

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

The following discussion and analysis should be read in conjunction with the unaudited condensed consolidated financial statements included in this report, as well as the Company's audited financial statements for the fiscal year ended April 30, 2006, which are included in the Company's Form 8-K dated September 29, 2006, filed with the Securities and Exchange Commission.

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

Overview. IRET is a self-advised equity real estate investment trust engaged in owning and operating income-producing real properties. Our investments include multi-family residential properties and office, industrial, medical and retail properties located primarily in the upper Midwest states of Minnesota and North Dakota. Our properties are diversified by type and location. As of October 31, 2006, our real estate portfolio consisted of 67 multi-family residential properties containing 8,934 apartment units and having a total carrying amount (net of accumulated depreciation and intangibles) of \$391.0 million, and 150 commercial properties containing approximately 9.7 million square feet of leasable space and having a total carrying amount (net of accumulated depreciation and intangibles) of \$880.3 million. Our commercial properties consist of:

- 64 office properties containing approximately 4.7 million square feet of leasable space and having a total carrying amount (net of accumulated depreciation and intangibles) of \$483.9 million;
- 33 medical properties (including assisted living facilities) containing approximately 1.7 million square feet of leasable space and having a total carrying amount (net of accumulated depreciation and intangibles) of \$243.6 million;
- 11 industrial properties (including miscellaneous commercial properties) containing approximately 1.8 million square feet of leasable space and having a total carrying amount (net of accumulated depreciation and intangibles) of \$52.3 million; and

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- 42 retail properties containing approximately 1.5 million square feet of leasable space and having a total carrying amount (net of accumulated depreciation and intangibles) of \$100.5 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, 2006, 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 and second quarters of fiscal year 2007.

RECENT ACCOUNTING PRONOUNCEMENTS

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements*, (SFAS 157), which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. SFAS 157 is effective for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. We are currently evaluating the impact of adopting SFAS 157.

In September 2006, the SEC's staff issued Staff Accounting Bulletin (SAB) No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements*. This Bulletin provides guidance on the consideration of the effects of prior year misstatements in quantifying current year misstatements for the purpose of a materiality assessment. The guidance in SAB No. 108 must be applied to financial reports covering the first fiscal year ending after November 15, 2006. The Company is currently evaluating the guidance in this Bulletin.

In June 2006, FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109* (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006, and accordingly will be effective for the Company on May 1, 2007. We are currently evaluating the impact of adopting this Interpretation.

RESULTS OF OPERATIONS FOR THE THREE MONTHS AND SIX MONTHS ENDED OCTOBER 31, 2006 AND 2005

Throughout this section, we have provided certain information on a "stabilized property" basis. Information provided on a stabilized property basis is provided only for those properties owned for the entirety of both periods being compared, and includes properties which were redeveloped or expanded during the periods being compared. Properties purchased or sold, and properties under development during the periods being compared, are excluded from our stabilized property analysis. Results presented on a stabilized property basis are not determined in accordance with GAAP; see the section of this report entitled "Results on a 'Stabilized Property' Basis" below for a statement of the reasons management believes that presenting certain information on a stabilized property basis is useful to investors.

REVENUES

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Total IRET revenues for the second quarter of fiscal year 2007 were \$49.0 million, compared to \$43.2 million recorded in the second quarter of the prior fiscal year. This is an increase of \$5.8 million or 13.4%. Revenues for the six months ended October 31, 2006, were \$94.0 million compared \$84.3 million in the six months ended October 31, 2005. This is an increase of \$9.7 million or 11.5%. This increase in revenue resulted primarily from the additional investments in real estate made by IRET during fiscal year 2007, as well as other factors shown by the following analysis:

| | <i>(in thousands)</i> | |
|--|--|--|
| | Increase in Total Revenue Three Months ended October 31, 2006 | Increase in Total Revenue Six Months ended October 31, 2006 |
| Rent in Fiscal 2007 from 15 properties acquired in Fiscal 2006 in excess of that received in Fiscal 2006 from the same 15 properties | \$ 1,399 | \$ 3,802 |
| Rent from 14 properties acquired in Fiscal 2007 | 3,226 | 3,339 |
| Increase in rental income on stabilized properties due to increased occupancy | 1,192 | 2,179 |
| Net increase in total revenue | \$ 5,817 | \$ 9,320 |

SEGMENT EXPENSES AND OPERATING PROFIT

The following table shows the changes in revenues, operating expenses, interest, and depreciation by reportable operating segment for the three months and six months ended October 31, 2006, as compared to the three months and six months ended October 31, 2005. For a reconciliation of segment revenues, profit (loss) and assets to the condensed consolidated financial statements, see Note 5 of the Notes to Condensed Consolidated Financial Statements.

Three Months Ended October 31:

| | <i>(in thousands)</i> | | | |
|---------------------------------|-----------------------|-------------|---------------|---------------------|
| | 2006 | 2005 | Change | % Change |
| <i>Multi-Family Residential</i> | | | | |
| Real estate revenue | \$ 17,140 | \$ 15,985 | \$ 1,155 | 7.2% |
| Expenses | | | | |
| Mortgage interest | 4,683 | 4,597 | 86 | 1.9% |
| Depreciation and amortization | 3,042 | 2,901 | 141 | 4.9% |
| Utilities | 1,426 | 1,614 | (188) | (11.6%) |
| Maintenance | 2,376 | 2,078 | 298 | 14.3% |
| Real estate taxes | 1,790 | 1,834 | (44) | (2.4%) |
| Insurance | 276 | 353 | (77) | (21.8%) |
| Property management | 2,013 | 1,794 | 219 | 12.2% |
| Total segment expense | \$ 15,606 | \$ 15,171 | \$ 435 | 2.9% |
| Segment operating profit | \$ 1,534 | \$ 814 | \$ 720 | 88.5% |

| | <i>(in thousands)</i> | | | |
|--------------------------|-----------------------|-------------|---------------|---------------------|
| | 2006 | 2005 | Change | % Change |
| <i>Commercial-Office</i> | | | | |
| Real estate revenue | \$ 17,796 | \$ 14,241 | \$ 3,555 | 25.0% |

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| | | | | |
|-------------------------------|-----------|-----------|----------|---------|
| Expenses | | | | |
| Mortgage interest | 4,921 | 3,724 | 1,197 | 32.1% |
| Depreciation and amortization | 4,836 | 3,520 | 1,316 | 37.4% |
| Utilities | 1,719 | 1,251 | 468 | 37.4% |
| Maintenance | 2,221 | 1,745 | 476 | 27.3% |
| Real estate taxes | 2,582 | 1,993 | 589 | 29.6% |
| Insurance | 183 | 164 | 19 | 11.6% |
| Property management | 842 | 628 | 214 | 34.1% |
| Total segment expense | \$ 17,304 | \$ 13,025 | \$ 4,279 | 32.9% |
| Segment operating profit | \$ 492 | \$ 1,216 | \$ (724) | (59.5%) |

19

(in thousands)

| | 2006 | 2005 | Change | % Change |
|-------------------------------|----------|----------|--------|-------------|
| <i>Commercial-Medical</i> | | | | |
| Real estate revenue | \$ 8,638 | \$ 7,899 | \$ 739 | 9.4% |
| Expenses | | | | |
| Mortgage interest | 2,821 | 2,665 | 156 | 5.9% |
| Depreciation and amortization | 2,069 | 1,783 | 286 | 16.0% |
| Utilities | 519 | 460 | 59 | 12.8% |
| Maintenance | 645 | 678 | (33) | (4.9%) |
| Real estate taxes | 540 | 557 | (17) | (3.1%) |
| Insurance | 67 | 79 | (12) | (15.2%) |
| Property management | 407 | 392 | 15 | 3.8% |
| Total segment expense | \$ 7,068 | \$ 6,614 | \$ 454 | 6.9% |
| Segment operating profit | \$ 1,570 | \$ 1,285 | \$ 285 | 22.2% |

(in thousands)

| | 2006 | 2005 | Change | % Change |
|-------------------------------|----------|----------|---------|-------------|
| <i>Commercial-Industrial</i> | | | | |
| Real estate revenue | \$ 1,844 | \$ 1,594 | \$ 250 | 15.7% |
| Expenses | | | | |
| Mortgage interest | 561 | 563 | (2) | (0.4%) |
| Depreciation and amortization | 395 | 382 | 13 | 3.4% |
| Utilities | 16 | 15 | 1 | 6.7% |
| Maintenance | 36 | 38 | (2) | (5.3%) |
| Real estate taxes | 95 | 177 | (82) | (46.3%) |
| Insurance | 17 | 20 | (3) | (15.0%) |
| Property management | 31 | 23 | 8 | 34.8% |
| Total segment expense | \$ 1,151 | \$ 1,218 | \$ (67) | (5.5%) |
| Segment operating profit | \$ 693 | \$ 376 | \$ 317 | 84.3% |

(in thousands)

| | 2006 | 2005 | Change | % Change |
|--|------|------|--------|-------------|
|--|------|------|--------|-------------|

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| <i>Commercial-Retail</i> | | | | |
|-------------------------------|----------|----------|----------|---------|
| Real estate revenue | \$ 3,544 | \$ 3,426 | \$ 118 | 3.4% |
| Expenses | | | | |
| Mortgage interest | 1,047 | 1,035 | 12 | 1.2% |
| Depreciation and amortization | 669 | 658 | 11 | 1.7% |
| Utilities | 106 | 79 | 27 | 34.2% |
| Maintenance | 218 | 182 | 36 | 19.8% |
| Real estate taxes | 527 | 444 | 83 | 18.7% |
| Insurance | 42 | 47 | (5) | (10.6%) |
| Property management | 208 | 135 | 73 | 54.1% |
| Total segment expense | \$ 2,817 | \$ 2,580 | \$ 237 | 9.2% |
| Segment operating profit | \$ 727 | \$ 846 | \$ (119) | (14.1%) |

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Six Months Ended October 31:

(in thousands)

| | 2006 | 2005 | Change | % Change |
|---------------------------------|-----------|-----------|----------|-------------|
| <i>Multi-Family Residential</i> | | | | |
| Real estate revenue | \$ 33,366 | \$ 31,275 | \$ 2,091 | 6.7% |
| Expenses | | | | |
| Mortgage interest | 9,152 | 9,149 | 3 | 0.0% |
| Depreciation and amortization | 5,977 | 5,769 | 208 | 3.6% |
| Utilities | 2,780 | 3,031 | (251) | (8.3%) |
| Maintenance | 4,717 | 4,472 | 245 | 5.5% |
| Real estate taxes | 3,589 | 3,648 | (59) | (1.6%) |
| Insurance | 559 | 714 | (155) | (21.7%) |
| Property management | 3,917 | 3,734 | 183 | 4.9% |
| Total segment expense | \$ 30,691 | \$ 30,517 | \$ 174 | 0.6% |
| Segment operating profit | \$ 2,675 | \$ 758 | \$ 1,917 | 252.9% |

(in thousands)

| | 2006 | 2005 | Change | % Change |
|-------------------------------|-----------|-----------|----------|-------------|
| <i>Commercial-Office</i> | | | | |
| Real estate revenue | \$ 32,624 | \$ 28,199 | \$ 4,425 | 15.7% |
| Expenses | | | | |
| Mortgage interest | 8,743 | 7,288 | 1,455 | 20.0% |
| Depreciation and amortization | 8,714 | 7,146 | 1,568 | 21.9% |
| Utilities | 2,786 | 2,338 | 448 | 19.2% |
| Maintenance | 3,977 | 3,517 | 460 | 13.1% |
| Real estate taxes | 4,812 | 3,939 | 873 | 22.2% |
| Insurance | 345 | 331 | 14 | 4.2% |
| Property management | 1,586 | 1,217 | 369 | 30.3% |
| Total segment expense | \$ 30,963 | \$ 25,776 | \$ 5,187 | 20.1% |
| Segment operating profit | \$ 1,661 | \$ 2,423 | \$ (762) | (31.4%) |

(in thousands)

| | 2006 | 2005 | Change | % Change |
|-------------------------------|-----------|-----------|----------|-------------|
| <i>Commercial-Medical</i> | | | | |
| Real estate revenue | \$ 17,088 | \$ 14,755 | \$ 2,333 | 15.8% |
| Expenses | | | | |
| Mortgage interest | 5,620 | 4,917 | 703 | 14.3% |
| Depreciation and amortization | 4,104 | 3,325 | 779 | 23.4% |
| Utilities | 916 | 723 | 193 | 26.7% |
| Maintenance | 1,253 | 1,181 | 72 | 6.1% |
| Real estate taxes | 1,140 | 1,098 | 42 | 3.8% |
| Insurance | 137 | 146 | (9) | (6.2%) |
| Property management | 840 | 801 | 39 | 4.9% |
| Total segment expense | \$ 14,010 | \$ 12,191 | \$ 1,819 | 14.9% |
| Segment operating profit | \$ 3,078 | \$ 2,564 | \$ 514 | 20.0% |

21

(in thousands)

| | 2006 | 2005 | Change | % Change |
|-------------------------------|----------|----------|---------|-------------|
| <i>Commercial-Industrial</i> | | | | |
| Real estate revenue | \$ 3,579 | \$ 3,159 | \$ 420 | 13.3% |
| Expenses | | | | |
| Mortgage interest | 1,120 | 1,129 | (9) | (0.8%) |
| Depreciation and amortization | 790 | 769 | 21 | 2.7% |
| Utilities | 23 | 27 | (4) | (14.8%) |
| Maintenance | 91 | 74 | 17 | 23.0% |
| Real estate taxes | 293 | 379 | (86) | (22.7%) |
| Insurance | 35 | 41 | (6) | (14.6%) |
| Property management | 60 | 57 | 3 | 5.3% |
| Total segment expense | \$ 2,412 | \$ 2,476 | \$ (64) | (2.6%) |
| Segment operating profit | \$ 1,167 | \$ 683 | \$ 484 | 70.9% |

(in thousands)

| | 2006 | 2005 | Change | % Change |
|-------------------------------|----------|----------|--------|-------------|
| <i>Commercial-Retail</i> | | | | |
| Real estate revenue | \$ 6,938 | \$ 6,887 | \$ 51 | 0.7% |
| Expenses | | | | |
| Mortgage interest | 2,045 | 2,054 | (9) | (0.4%) |
| Depreciation and amortization | 1,348 | 1,318 | 30 | 2.3% |
| Utilities | 188 | 170 | 18 | 10.6% |
| Maintenance | 469 | 501 | (32) | (6.4%) |
| Real estate taxes | 1,052 | 882 | 170 | 19.3% |
| Insurance | 86 | 94 | (8) | (8.5%) |
| Property management | 375 | 280 | 95 | 33.9% |

| | | | | |
|--------------------------|----------|----------|----------|---------|
| Total segment expense | \$ 5,563 | \$ 5,299 | \$ 264 | 5.0% |
| Segment operating profit | \$ 1,375 | \$ 1,588 | \$ (213) | (13.4%) |

FACTORS IMPACTING NET INCOME:

Our results during the three and six months ended October 31, 2006, compared to the three and six months ended October 31, 2005, show continued overall improvement in occupancy levels and rental revenues. Economic occupancy rates in four of our five segments increased compared to the year-earlier periods, and real estate revenue increased in the three and six months ended October 31, 2006, compared to the year-earlier periods in all of our reportable segments. Net income available to common shareholders increased to \$2,915,000 and \$5,435,000, respectively, for the three and six months ended October 31, 2006, compared to \$1,980,000 and \$3,059,000 for the three and six months ended October 31, 2005. Revenue increases in the first and second quarters of fiscal year 2007 compared to the first and second quarters of fiscal year 2006 were offset somewhat by increases in maintenance, utility, administrative and operating expenses and mortgage interest expense, and by a continued increase in the level of tenant concessions.

- *Economic Occupancy.* Economic occupancy represents actual rental revenues recognized for the period indicated as a percentage of scheduled rental revenues for the period. Percentage rents and expense reimbursements are not considered in computing either actual revenues or scheduled rent revenues. Economic occupancy rates on a stabilized property basis improved in four of our five reportable segments during the three and six months ended October 31, 2006, compared to the three and six months ended October 31, 2005. Economic occupancy rates on a stabilized property basis declined in our Commercial Office segment compared to the year-earlier periods:

| | Three Months Ended October 31: | | |
|--------------------------|---|-------------|---------------|
| | 2006 | 2005 | Change |
| Multi-Family Residential | 94.4% | 92.7% | 1.7% |
| Commercial Office | 90.1% | 92.6% | (2.5%) |
| Commercial Medical | 96.9% | 95.2% | 1.7% |
| Commercial Industrial | 93.5% | 86.6% | 6.9% |
| Commercial Retail | 88.2% | 88.1% | 0.1% |

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| | Six Months Ended October 31: | | |
|--------------------------|---|-------------|---------------|
| | 2006 | 2005 | Change |
| Multi-Family Residential | 93.7% | 91.5% | 2.2% |
| Commercial Office | 90.9% | 92.2% | (1.3%) |
| Commercial Medical | 96.6% | 94.8% | 1.8% |
| Commercial Industrial | 92.7% | 86.6% | 6.1% |
| Commercial Retail | 88.3% | 88.2% | 0.1% |

During the second quarter of fiscal year 2007, we have seen continued improvement in results at our multi-family residential properties. While we have had limited success in increasing scheduled rental rates at our apartment communities, the construction of competing apartment units, single-family homes and condominium units has abated in most of our markets. Combined with positive absorption of previously-constructed housing, this reduction in construction of competing product has allowed us to reduce our levels of vacancy and tenant concessions in our

multi-family residential segment. We have also seen during this period an increase in demand for industrial space, although rental rates in this segment generally remain at levels lower than in prior fiscal years. Despite some positive economic developments during the quarter, however, we have not seen any meaningful sustained demand for commercial office space or for existing smaller retail developments, which comprise a majority of IRET's retail portfolio. Our expectation is that demand in IRET's markets for our office and retail locations will improve only slightly through the third quarter of fiscal year 2007.

- *Concessions.* While economic occupancy levels in four of our five reportable segments improved this quarter, our overall level of tenant concessions continued to increase, despite continuation of the trend of declining concessions in our multi-family residential markets. To maintain or increase physical occupancy levels at our properties, we may offer tenant incentives, generally in the form of lower or abated rents, which results in decreased revenues and income from operations at our properties. Rent concessions offered during the three and six months ended October 31, 2006 lowered our operating revenues by approximately \$1.5 million and \$3.0 million, respectively, as compared to an approximately \$1.4 million and \$2.8 million reduction in operating revenues attributable to rent concessions offered in the three and six months ended October 31, 2005.

The following table shows the approximate reduction in our operating revenues due to rent concessions, by segment, for the three and six months ended October 31, 2006 and 2005:

| | (in thousands) | | |
|--------------------------|---------------------------------------|-------------|---------------|
| | Three Months Ended October 31: | | |
| | 2006 | 2005 | Change |
| Multi-Family Residential | \$ 870 | \$ 1,119 | (22.3%) |
| Commercial Office | 554 | 260 | 113.1% |
| Commercial Medical | 47 | 36 | 30.6% |
| Commercial Industrial | 0 | 6 | (100.0%) |
| Commercial Retail | 10 | 4 | 150.0% |
| | \$ 1,481 | \$ 1,425 | 3.9% |

| | (in thousands) | | |
|--------------------------|-------------------------------------|-------------|---------------|
| | Six Months Ended October 31: | | |
| | 2006 | 2005 | Change |
| Multi-Family Residential | \$ 1,756 | \$ 2,186 | (19.7%) |
| Commercial Office | 1,161 | 471 | 147.1% |
| Commercial Medical | 59 | 75 | (22.7%) |
| Commercial Industrial | 0 | 12 | (100.0%) |
| Commercial Retail | 14 | 9 | 55.6% |
| | \$ 2,990 | \$ 2,753 | 8.6% |

- *Increased Maintenance Expense.* Maintenance expense totaled \$5,496,000 and \$10,507,000, respectively, for the three and six months ended October 31, 2006, compared to \$4,721,000 and \$9,745,000 for the three and six months ended October 31, 2005. Maintenance expenses at properties newly acquired in fiscal years 2006 and 2007 added \$465,000 to the maintenance expenses category, while maintenance expenses at existing properties increased by \$310,000, resulting in an increase in

maintenance expenses of \$775,000, or 16.4% for the three months ended October 31, 2006, as compared to the corresponding period in fiscal year 2006. For the six months ended October 31, 2006, the maintenance expense

category increased by \$762,000, or 7.8%, as compared to the corresponding period in fiscal year 2006. Of the increased maintenance costs for the six months ended October 31, 2006, \$704,000 or 92.4% is attributable to the addition of new real estate acquired in fiscal years 2006 and 2007, while \$58,000 or 7.6% is due to increased costs for maintenance on existing real estate assets. Under the terms of most of our commercial leases, the full cost of maintenance is paid by the tenant as additional rent. For our noncommercial real estate properties, any increase in our maintenance costs must be collected from tenants in the form of a general rent increase. While we have implemented selected rent increases, the current economic conditions and vacancy levels at our properties have prevented us from raising rents in the amount necessary to fully recover our increased maintenance costs.

- Increased Utility Expense.* Utility expense totaled \$3,786,000 and \$6,693,000, respectively, for the three and six months ended October 31, 2006, compared to \$3,419,000 and \$6,289,000 for the three and six months ended October 31, 2005. Utility expenses at properties newly acquired in fiscal years 2006 and 2007 added \$328,000 to the utility expenses category, while utility expenses at existing properties increased by \$39,000, resulting in an increase in utility expenses of \$367,000 in the second quarter of fiscal year 2007, a 10.7% increase over utility expenses in the second quarter of fiscal year 2006. For the six months ended October 31, 2006, utility expenses at properties newly acquired in fiscal year 2006 and 2007 added \$471,000 to the utility expenses category, while utility expenses at existing properties decreased by \$67,000, resulting in a net increase in utility expenses of \$404,000, or 6.4%, over utility expenses in the six months ended October 31, 2005.
- Increased Administrative and Operating Expense.* Administrative and operating expenses increased to \$1,325,000 and \$2,512,000, respectively, for the three and six months ended October 31, 2006, compared to \$1,178,000 and \$2,382,000 for the three and six months ended October 31, 2005, increases of \$147,000 and \$130,000, or 12.5% and 5.5%, respectively. The Company has added 13 new employees during fiscal year 2007.
- Increased Mortgage Interest Expense.* Our mortgage debt increased approximately \$169.9 million, or 22.2%, to approximately \$935.8 million as of October 31, 2006, compared to \$765.9 million on April 30, 2006. Mortgage interest expense for properties newly acquired in fiscal 2006 and 2007 added \$1.7 million to our total mortgage interest expense for the three months ended October 31, 2006 and \$2.5 million for the six months ended October 31, 2006, while mortgage interest expense on existing properties decreased \$240,000 for the three months ended October 31, 2006 and decreased \$377,000 for the six months ended October 31, 2006, resulting in a net increase in mortgage interest expense of \$1.4 million, or 11.5%, for the three months ended October 31, 2006, and \$2.1 million, or 8.7% for the six months ended October 31, 2006, compared to the three and six months ended October 31, 2005. Our overall weighted average interest rate on all outstanding mortgage debt is 6.43% as of October 31, 2006.
- Increased Amortization Expense.* In accordance with SFAS No. 141, *Business Combinations*, which establishes standards for valuing in-place leases in purchase transactions, the Company allocates a portion of the purchase price paid for properties to in-place lease intangible assets. The amortization period of these intangible assets is the term of the lease, rather than the estimated life of the buildings and improvements. The Company accordingly initially records additional amortization expense due to this shorter amortization period, which has the effect in the short term of decreasing the Company's net income available to common shareholders, as computed in accordance with GAAP.

RESULTS ON A "STABILIZED PROPERTY" BASIS

The following table presents results on a stabilized property basis for the three months and six months ended October 31, 2006 and 2005, for our multi-family residential and commercial properties, consisting of office, medical, industrial and retail properties. Property Segment Operating Profit should not be considered as an alternative to operating income as determined in accordance with GAAP as a measure of IRET's performance. The Company analyzes and compares results of operations on 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 being excluded from this analysis). 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.

Three Months Ended October 31:

| | <i>(in thousands)</i> | | |
|-----------------------------------|---|-------------|---------------------|
| | For the Three Months Ended October 31, | | |
| | 2006 | 2005 | % Change |
| <i>Multi-family residential</i> | | | |
| Real Estate Revenue | \$ 16,594 | \$ 15,930 | 4.2% |
| Expenses: | | | |
| Mortgage interest | 4,584 | 4,597 | (0.3%) |
| Depreciation and amortization | 2,934 | 2,884 | 1.7% |
| Utilities | 1,389 | 1,604 | (13.4%) |
| Maintenance | 2,279 | 2,073 | 9.9% |
| Real estate taxes | 1,724 | 1,820 | (5.3%) |
| Insurance | 268 | 352 | (23.9%) |
| Property management | 1,945 | 1,789 | 8.7% |
| Total expenses | \$ 15,123 | \$ 15,119 | 0.0% |
| Property segment operating profit | \$ 1,471 | \$ 811 | 81.4% |
| <i>Commercial office</i> | | | |
| Real Estate Revenue | \$ 14,136 | \$ 14,107 | 0.2% |
| Expenses: | | | |
| Mortgage interest | 3,586 | 3,724 | (3.7%) |
| Depreciation and amortization | 3,459 | 3,489 | (0.9%) |
| Utilities | 1,398 | 1,248 | 12.0% |
| Maintenance | 1,809 | 1,737 | 4.1% |
| Real estate taxes | 2,086 | 1,974 | 5.7% |
| Insurance | 147 | 161 | (8.7%) |
| Property management | 728 | 625 | 16.5% |
| Total expenses | \$ 13,213 | \$ 12,958 | 2.0% |
| Property segment operating profit | \$ 923 | \$ 1,149 | (19.7%) |
| <i>Commercial medical</i> | | | |
| Real Estate Revenue | \$ 6,606 | \$ 6,365 | 3.8% |
| Expenses: | | | |
| Mortgage interest | 2,189 | 2,243 | (2.4%) |
| Depreciation and amortization | 1,389 | 1,355 | 2.5% |
| Utilities | 413 | 337 | 22.6% |
| Maintenance | 490 | 490 | 0.0% |
| Real estate taxes | 410 | 430 | (4.7%) |
| Insurance | 63 | 70 | (10.0%) |

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| | | | | |
|-----------------------------------|----|-------|----------|---------|
| Property management | | 356 | 339 | 5.0% |
| Total expenses | \$ | 5,310 | \$ 5,264 | 0.9% |
| Property segment operating profit | \$ | 1,296 | \$ 1,101 | 17.7% |
| <i>Commercial - industrial</i> | | | | |
| Real Estate Revenue | \$ | 1,844 | \$ 1,594 | 15.7% |
| Expenses: | | | | |
| Mortgage interest | | 561 | 563 | (0.4%) |
| Depreciation and amortization | | 395 | 382 | 3.4% |
| Utilities | | 16 | 15 | 6.7% |
| Maintenance | | 36 | 38 | (5.3%) |
| Real estate taxes | | 95 | 177 | (46.3%) |
| Insurance | | 17 | 20 | (15.0%) |
| Property management | | 31 | 23 | 34.8% |
| Total expenses | \$ | 1,151 | \$ 1,218 | (5.5%) |
| Property segment operating profit | \$ | 693 | \$ 376 | 84.3% |

25

(in thousands)
**For the Three Months
 Ended October 31,**

| | 2006 | 2005 | % Change |
|---|----------|----------|-------------|
| <i>Commercial retail</i> | | | |
| Real Estate Revenue | \$ 3,434 | \$ 3,426 | 0.2% |
| Expenses: | | | |
| Mortgage interest | 1,002 | 1,035 | (3.2%) |
| Depreciation and amortization | 644 | 658 | (2.1%) |
| Utilities | 105 | 79 | 32.9% |
| Maintenance | 216 | 182 | 18.7% |
| Real estate taxes | 519 | 444 | 16.9% |
| Insurance | 42 | 47 | (10.6%) |
| Property management | 208 | 135 | 54.1% |
| Total expenses | \$ 2,736 | \$ 2,580 | 6.0% |
| Property segment operating profit | \$ 698 | \$ 846 | (17.5%) |
| Total Stabilized Segment Operating Profit | \$ 5,081 | \$ 4,283 | 18.6% |
| Reconciliation to Segment Operating Profit | | | |
| Real Estate Revenue Non-Stabilized | \$ 6,348 | \$ 1,723 | |
| Expenses Non-Stabilized | | | |
| Mortgage interest | 2,111 | 422 | |
| Depreciation and amortization | 2,190 | 476 | |
| Utilities | 465 | 136 | |
| Maintenance | 666 | 201 | |
| Real estate taxes | 700 | 160 | |
| Insurance | 48 | 13 | |
| Property management | 233 | 61 | |

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| | | |
|---|----------|----------|
| Total Segment Operating Profit | \$ 5,016 | \$ 4,537 |
| Reconciliation to consolidated operations | | |
| Interest discounts and fee revenue | 684 | 251 |
| Other interest expense | (1,024) | (295) |
| Depreciation furniture and fixtures | (57) | (70) |
| Administrative, advisory and trustee fees | (1,058) | (970) |
| Operating expenses | (335) | (266) |
| Amortization | (241) | (164) |
| Loss on impairment | (190) | 0 |
| Income before minority interest and discontinued operations and gain on sale of other investments | \$ 2,795 | \$ 3,023 |

Six Months Ended October 31:

(in thousands)
For the Six Months
Ended October 31,

| | 2006 | 2005 | % Change |
|-----------------------------------|-----------|-----------|-------------|
| <i>Multi-family residential</i> | | | |
| Real Estate Revenue | \$ 32,681 | \$ 31,184 | 4.8% |
| Expenses: | | | |
| Mortgage interest | 9,053 | 9,149 | (1.0%) |
| Depreciation and amortization | 5,839 | 5,736 | 1.8% |
| Utilities | 2,737 | 3,020 | (9.4%) |
| Maintenance | 4,610 | 4,464 | 3.3% |
| Real estate taxes | 3,503 | 3,620 | (3.2%) |
| Insurance | 549 | 711 | (22.8%) |
| Property management | 3,840 | 3,727 | 3.0% |
| Total expenses | \$ 30,131 | \$ 30,427 | (1.0%) |
| Property segment operating profit | \$ 2,550 | \$ 757 | 236.9% |

26

(in thousands)
For the Six Months
Ended October 31,

| | 2006 | 2005 | % Change |
|-------------------------------|-----------|-----------|-------------|
| <i>Commercial office</i> | | | |
| Real Estate Revenue | \$ 27,959 | \$ 28,064 | (0.4%) |
| Expenses: | | | |
| Mortgage interest | 7,195 | 7,288 | (1.3%) |
| Depreciation and amortization | 6,986 | 7,115 | (1.8%) |
| Utilities | 2,414 | 2,334 | 3.4% |
| Maintenance | 3,429 | 3,509 | (2.3%) |
| Real estate taxes | 4,162 | 3,921 | 6.1% |

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| | | | |
|---|-----------|-----------|---------|
| Insurance | 297 | 329 | (9.7%) |
| Property management | 1,415 | 1,213 | 16.7% |
| Total expenses | \$ 25,898 | \$ 25,709 | 0.7% |
| Property segment operating profit | \$ 2,061 | \$ 2,355 | (12.5%) |
| <i>Commercial medical</i> | | | |
| Real Estate Revenue | \$ 13,148 | \$ 12,675 | 3.7% |
| Expenses: | | | |
| Mortgage interest | 4,373 | 4,496 | (2.7%) |
| Depreciation and amortization | 2,768 | 2,717 | 1.9% |
| Utilities | 713 | 590 | 20.8% |
| Maintenance | 943 | 931 | 1.3% |
| Real estate taxes | 881 | 888 | (0.8%) |
| Insurance | 127 | 135 | (5.9%) |
| Property management | 736 | 713 | 3.2% |
| Total expenses | \$ 10,541 | \$ 10,470 | 0.7% |
| Property segment operating profit | \$ 2,607 | \$ 2,205 | 18.2% |
| <i>Commercial - industrial</i> | | | |
| Real Estate Revenue | \$ 3,579 | \$ 3,159 | 13.3% |
| Expenses: | | | |
| Mortgage interest | 1,120 | 1,129 | (0.8%) |
| Depreciation and amortization | 790 | 769 | 2.7% |
| Utilities | 23 | 27 | (14.8%) |
| Maintenance | 91 | 74 | 23.0% |
| Real estate taxes | 293 | 379 | (22.7%) |
| Insurance | 35 | 41 | (14.6%) |
| Property management | 60 | 57 | 5.3% |
| Total expenses | \$ 2,412 | \$ 2,476 | (2.6%) |
| Property segment operating profit | \$ 1,167 | \$ 683 | 70.9% |
| <i>Commercial retail</i> | | | |
| Real Estate Revenue | \$ 6,781 | \$ 6,887 | (1.5%) |
| Expenses: | | | |
| Mortgage interest | 1,997 | 2,054 | (2.8%) |
| Depreciation and amortization | 1,295 | 1,318 | (1.7%) |
| Utilities | 186 | 170 | 9.4% |
| Maintenance | 465 | 501 | (7.2%) |
| Real estate taxes | 1,036 | 882 | 17.5% |
| Insurance | 85 | 94 | (9.6%) |
| Property management | 374 | 280 | 33.6% |
| Total expenses | \$ 5,438 | \$ 5,299 | 2.6% |
| Property segment operating profit | \$ 1,343 | \$ 1,588 | 15.4% |
| Total Stabilized Segment Operating Profit | \$ 9,728 | \$ 7,588 | 28.2% |

| | <i>(in thousands)</i> | |
|--|---|-----------------|
| | For the Six Months Ended October 31, | |
| | 2006 | 2005 |
| Reconciliation to Segment Operating Profit | | |
| Real Estate Revenue Non-Stabilized | \$ 9,447 | \$ 2,306 |
| Expenses Non-Stabilized | | |
| Mortgage interest | 2,942 | 421 |
| Depreciation and amortization | 3,255 | 671 |
| Utilities | 620 | 149 |
| Maintenance | 969 | 266 |
| Real estate taxes | 1,011 | 256 |
| Insurance | 69 | 16 |
| Property management | 353 | 99 |
| Total Segment Operating Profit | \$ 9,956 | \$ 8,016 |
| Reconciliation to consolidated operations | | |
| Interest discounts and fee revenue | 963 | 453 |
| Other interest expense | (1,391) | (658) |
| Depreciation furniture and fixtures | (118) | (107) |
| Administrative, advisory and trustee fees | (2,037) | (1,935) |
| Operating expenses | (615) | (553) |
| Amortization | (458) | (311) |
| Loss on impairment | (520) | 0 |
| Income before minority interest and discontinued operations and gain on sale of other investments | \$ 5,780 | \$ 4,905 |

ECONOMIC OCCUPANCY RATES

Economic occupancy represents actual rental revenues recognized for the period indicated as a percentage of scheduled rental revenues for the period. Percentage rents and expense reimbursements are not considered in computing either actual revenues or scheduled rent revenues. The following tables compare economic occupancy rates on a "stabilized property" basis for the three and six months ended October 31, 2006 and 2005:

Three Months Ended October 31:

| | <i>(in thousands)</i> | | |
|--------------------------|-----------------------|-------------|---------------------|
| | 2006 | 2005 | % Change |
| Multi-Family Residential | 94.4% | 92.7% | 1.7% |
| Commercial-Office | 90.1% | 92.6% | (2.5%) |
| Commercial-Medical | 96.9% | 95.2% | 1.7% |
| Commercial-Industrial | 93.5% | 86.6% | 6.9% |
| Commercial-Retail | 88.2% | 88.1% | 0.1% |

Six Months Ended October 31:

| | <i>(in thousands)</i> | |
|--|-----------------------|-------------|
| | 2006 | 2005 |

| | | | % Change |
|--------------------------|-------|-------|-------------|
| Multi-Family Residential | 93.7% | 91.5% | 2.2% |
| Commercial-Office | 90.9% | 92.2% | (1.3%) |
| Commercial-Medical | 96.6% | 94.8% | 1.8% |
| Commercial-Industrial | 92.7% | 86.6% | 6.1% |
| Commercial-Retail | 88.3% | 88.2% | 0.1% |

CREDIT RISK

The following table lists our top ten commercial tenants on October 31, 2006, for all commercial properties owned by us. No single tenant accounted for more than 10% of revenues from commercial properties during the second quarter of fiscal year 2007.

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| Lessee | % of Total Commercial Segment's Minimum Rents as of October 31, 2006 |
|---|---|
| Edgewood Living Communities, Inc. | 6.6% |
| St. Lukes | 4.0% |
| Applied Underwriters, Inc. | 2.6% |
| Best Buy | 2.4% |
| Healtheast - Woodbury & Maplewood | 2.0% |
| Microsoft Great Plains | 1.8% |
| Smurfit - Stone Container Corp. | 1.7% |
| Nebraska Orthopaedic Hospital | 1.6% |
| Wilson's The Leather Experts, Inc. | 1.5% |
| Allina Health | 1.5% |
| All Others | 74.3% |
| Total Monthly Rent as of October 31, 2006 | 100.0% |

PROPERTY ACQUISITIONS AND DISPOSITIONS

Acquisitions and Dispositions During the Six Months Ended October 31, 2006:

During the second quarter of fiscal year 2007, IRET acquired three parcels of vacant land adjacent to existing IRET properties; an apartment complex; and a portfolio of nine office properties consisting of 15 buildings, for a total purchase price of approximately \$157.2 million, excluding closing costs. The Company sold a parcel of vacant land; a small office building; an apartment complex; and three small retail properties, for a total sale price of approximately \$8.4 million during the three months ended October 31, 2006.

During the first quarter of fiscal year 2007, the Company acquired a small retail property, two parcels of vacant land, an apartment complex, and a senior housing complex with adjoining land for a total purchase price of approximately

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\$11.2 million, excluding closing costs. The Company also completed construction on a commercial retail property for a total cost of approximately \$2.1 million. The Company disposed of an assisted living facility and a small retail property during the first quarter of fiscal year 2007, for a total sales price of approximately \$4.9 million.

The following table details the Company's acquisitions and dispositions during the six months ended October 31, 2006:

| <u>Acquisitions</u> | <i>(in thousands)</i> | |
|---|-------------------------|--------|
| | Acquisition Cost | |
| <i>Multi-Family Residential</i> | | |
| Arbors Apartments Sioux City, NE | \$ | 7,000 |
| Quarry Ridge Apartments Rochester, MN | | 14,570 |
| <i>Commercial Property Office</i> | | |
| Pacific Hills Omaha, NE | | 21,906 |
| Corporate Center West Omaha, NE | | 21,497 |
| Farnam Executive Center Omaha, NE | | 12,853 |
| Miracle Hills One Omaha, NE | | 11,950 |
| Woodlands Plaza IV Maryland Heights, MO | | 16,502 |
| Riverport Maryland Heights, MO | | 14,546 |
| Timberlands Leawood, KS | | 5,840 |
| Flagship Eden Prairie, MN | | 26,094 |
| Gateway Corporate Center Woodbury, MN | | 9,612 |
| <i>Commercial Property Medical (including assisted living)</i> | | |
| Fox River Cottages Grand Chute, WI | | 3,200 |
| <i>Commercial Property Retail</i> | | |
| Dakota West Plaza Minot, ND | | 625 |
| Weston Walgreens Weston, WI* | | 2,144 |

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| | | |
|---|----|---------|
| <i>Undeveloped Property</i> | | |
| Monticello Undeveloped Parcel (City) Monticello, MN | | 5 |
| St. Michaels Undeveloped St. Michael, MN | | 320 |
| Monticello Undeveloped Parcel (Other) Monticello, MN | | 78 |
| Weston Undeveloped Weston, WI | | 810 |
| Quarry Ridge Undeveloped Rochester MN | | 930 |
| Total Property Acquisitions | \$ | 170,482 |

* Development property placed in service May 1, 2006.

| <u>Dispositions</u> | <i>(in thousands)</i> | | |
|--------------------------------------|-----------------------------|-------------|------------------|
| | Book Value and Sales | | |
| | Sales Price | Cost | Gain/Loss |
| <i>Multi-Family Residential</i> | | | |
| Clearwater Apartments Boise, ID | \$ 4,000 | \$ 3,369 | \$ 631 |
| <i>Commercial Property Office</i> | | | |

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| | | | | |
|--|-------------------------|-----------|-----------|----------|
| Greenwood Office | Greenwood, MN | 1,500 | 961 | 539 |
| <i>Commercial Property Medical (Assisted Living)</i> | | | | |
| Wedgewood Sweetwater | Lithia Springs, GA | 4,550 | 3,823 | 727 |
| <i>Commercial Property Retail</i> | | | | |
| Moundsview Bakery | Mounds View, MN | 380 | 287 | 93 |
| Howard Lake C-Store | Winsted, MN | 550 | 374 | 176 |
| Wilmar Sam Goody | Wilmar, MN | 450 | 409 | 41 |
| Winsted C-Store | Winsted, MN | 190 | 214 | (24) |
| Buffalo Strip Center | Buffalo, MN | 800 | 567 | 233 |
| <i>Undeveloped Property</i> | | | | |
| IGH Land | Inver Grove Heights, MN | 900 | 613 | 287 |
| Total Property Dispositions | | \$ 13,320 | \$ 10,617 | \$ 2,703 |

FUNDS FROM OPERATIONS FOR THE THREE MONTHS AND SIX MONTHS ENDED OCTOBER 31, 2006 AND 2005

IRET considers Funds from Operations (“FFO”) a useful measure of performance for an equity REIT. IRET uses the definition of FFO adopted by the National Association of Real Estate Investment Trusts, Inc. (“NAREIT”) in 1991, as clarified in 1995, 1999 and 2002. NAREIT defines FFO to mean “net income (computed in accordance with generally accepted accounting principles), excluding gains (or losses) from sales of property, plus depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures. Adjustments for unconsolidated partnerships and joint ventures will be calculated to reflect funds from operations on the same basis.” Because of limitations of the FFO definition adopted by NAREIT, IRET has made certain interpretations in applying the definition. IRET believes all such interpretations not specifically provided for in the NAREIT definition are consistent with the definition.

IRET management considers that FFO, by excluding depreciation costs, the gains or losses from the sale of operating real estate properties and extraordinary items as defined by GAAP, is useful to investors in providing an additional perspective on IRET’s operating results. Historical cost accounting for real estate assets in accordance with GAAP assumes, through depreciation, that the value of real estate assets decreases predictably over time. However, real estate asset values have historically risen or fallen with market conditions. NAREIT’s definition of FFO, by excluding depreciation costs, reflects the fact that real estate, as an asset class, generally appreciates over time and that depreciation charges required by GAAP may not reflect underlying economic realities. Additionally, the exclusion, in NAREIT’s definition of FFO, of gains and losses from the sales of previously depreciated operating real estate assets, allows IRET management and investors better to identify the operating results of the long-term assets that form the core of IRET’s investments, and assists in comparing those operating results between periods. FFO is used by IRET management and investors to identify trends in occupancy rates, rental rates and operating costs.

While FFO is widely used by REITs as a primary performance metric, not all real estate companies use the same definition of FFO or calculate FFO in the same way. Accordingly, FFO presented here is not necessarily comparable to FFO presented by other real estate companies.

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FFO should not be considered as an alternative to net income as determined in accordance with GAAP as a measure of IRET's performance, but rather should be considered as an additional, supplemental measure, and should be viewed in conjunction with net income as presented in the consolidated financial statements included in this report. FFO does not represent cash generated from operating activities in accordance with GAAP, and is not necessarily indicative of sufficient cash flow to fund all of IRET's needs or its ability to service indebtedness or make distributions.

FFO applicable to common shares and Units for the three months and six months ended October 31, 2006 increased to \$13.4 million and \$26.0 million, compared to \$12.1 million and \$22.8 million for the comparable periods ended October 31, 2005, an increase of 10.7% and 14.0%, respectively.

RECONCILIATION OF NET INCOME TO FUNDS FROM OPERATIONS

(in thousands, except per share amounts)

| Three Months Ended October 31, | 2006 | | | 2005 | | |
|---|-----------|----------------------------------|-----------------------|-----------|----------------------------------|-----------------------|
| | Amount | Weighted Avg Shares and Units(2) | Per Share and Unit(3) | Amount | Weighted Avg Shares and Units(2) | Per Share and Unit(3) |
| Net income | \$ 3,508 | | \$ | \$ 2,573 | | \$ |
| Less dividends to preferred shareholders | (593) | | | (593) | | |
| Net income available to common shareholders | 2,915 | 47,408 | .06 | 1,980 | 45,762 | .04 |
| Adjustments: | | | | | | |
| Minority interest in earnings of Unitholders | 1,038 | 15,757 | | 595 | 13,454 | |
| Depreciation and amortization (1) | 11,262 | | | 9,519 | | |
| Gains on depreciable property sales | (1,817) | | | (21) | | |
| Funds from operations applicable to common shares and Units | \$ 13,398 | 63,165 | \$.21 | \$ 12,073 | 59,216 | \$.20 |

(in thousands, except per share amounts)

| Six Months Ended October 31, | 2006 | | | 2005 | | |
|--|-----------|----------------------------------|-----------------------|-----------|----------------------------------|-----------------------|
| | Amount | Weighted Avg Shares and Units(2) | Per Share and Unit(3) | Amount | Weighted Avg Shares and Units(2) | Per Share and Unit(3) |
| Net income | \$ 6,621 | | \$ | \$ 4,245 | | \$ |
| Less dividends to preferred shareholders | (1,186) | | | (1,186) | | |
| Net income available to common shareholders | 5,435 | 47,225 | .11 | 3,059 | 45,493 | .07 |
| Adjustments: | | | | | | |
| Minority interest in earnings of Unitholders | 1,771 | 14,760 | | 912 | 13,352 | |
| Depreciation and amortization (4) | 21,467 | | | 18,851 | | |
| Gains on depreciable property sales | (2,637) | | | (23) | | |
| | \$ 26,036 | 61,985 | \$.42 | \$ 22,799 | 58,845 | \$.39 |

Funds from operations applicable to
common shares
and Units

(1) Real estate depreciation and amortization consists of the sum of depreciation/amortization related to real estate investments and amortization related to non-real estate investments from the Condensed Consolidated Statements of Operations, totaling \$11,309 and \$9,478, and depreciation/amortization from Discontinued Operations of \$10 and \$96, less corporate-related depreciation and amortization on office equipment and other assets of \$57 and \$55, for the three months ended October 31, 2006 and 2005, respectively.

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

(3) Net income is calculated on a per share basis. FFO is calculated on a per share and unit basis.

(4) Real estate depreciation and amortization consists of the sum of depreciation/amortization related to real estate investments and amortization related to non-real estate investments from the Condensed Consolidated Statements of Operations, totaling \$21,509 and \$18,745, and depreciation/amortization from Discontinued Operations of \$75 and \$221, less corporate-related depreciation and amortization on office equipment and other assets of \$117 and \$115, for the six months ended October 31, 2006 and 2005, respectively.

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DISTRIBUTIONS

The following distributions per common share and unit were paid during the six months ended October 31 of fiscal years 2006 and 2005:

| Date | Fiscal Year 2007 | Fiscal Year 2006 |
|-----------|------------------|---------------------|
| July 1 | \$.1645 | \$.1625 |
| October 1 | .1650 | .1630 |
| Total | \$.3295 | \$.3255 |

LIQUIDITY AND CAPITAL RESOURCES

OVERVIEW

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

The Company expects to meet its short-term liquidity requirements through net cash flows provided by its operating activities, and through draws from time to time on its unsecured lines of credit. Management considers the Company's ability to generate cash to be adequate to meet all operating requirements and to make distributions to its shareholders in accordance with the REIT provisions of the Internal Revenue Code. Budgeted expenditures for ongoing maintenance and capital improvements and renovations to our real estate portfolio are expected to be funded from cash flow generated from operations of current properties.

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

SOURCES AND USES OF CASH

As of October 31, 2006, the Company had three unsecured lines of credit, each in the amounts of \$10.0 million, from (1) Bremer Bank, Minot, ND; (2) First Western Bank and Trust, Minot, ND; and (3) First International Bank and Trust, Watford City, ND. The Company had no outstanding borrowings on these lines as of October 31, 2006. Borrowings under the lines of credit bear interest based on the following for each of the lines of credit described above: (1) Wall Street Journal prime rate, or Libor plus 2.30% for periods of 90 days or more, (2) Wall Street Journal prime rate, and (3) Wall Street Journal prime rate. Increases in interest rates will increase the Company's interest expense on any borrowings under its lines of credit and as a result will affect the Company's results of operations and cash flows. The Company's lines of credit with Bremer Bank and First International Bank and Trust expire in September 2007 and December 2006, respectively. The Company will seek to renew these lines of credit prior to their expiration. The Company is currently in discussions with First Western Bank regarding renewal of the First Western line of credit, which expired in October 2006. The Company expects to renew this credit line.

The issuance of UPREIT Units for property acquisitions continues to be a source of capital for the Company. In the second quarter of fiscal year 2007, 5,972,171 Units were issued in connection with property acquisitions, compared to 683,393 Units issued in connection with property acquisitions during the second quarter of fiscal year 2006.

The Company has a Distribution Reinvestment Plan ("DRIP"). The DRIP provides common shareholders and UPREIT Unitholders of the Company an opportunity to invest their cash distributions in common shares of the Company at a discount of 5% from the market price. The Company issued 333,788 common shares under its DRIP during the first quarter of fiscal year 2007, and 311,705 common shares during the second quarter of fiscal year 2007.

Cash and cash equivalents on October 31, 2006 totaled \$67.9 million, compared to \$27.4 million on October 31, 2005. The net increase in cash and cash equivalents during this period was \$46.5 million. Net cash provided by operating activities increased by \$5.2 million primarily due to increase in net income. Net cash used for investing activities increased by \$45.1 million, primarily due to

proceeds from sales of properties and less cash used for acquisitions compared to the second quarter of fiscal year 2006; and net cash provided by financing activities increased by \$86.4 million primarily due to proceeds from mortgage loan payables.

FINANCIAL CONDITION

Mortgage Loan Indebtedness. Mortgage loan indebtedness increased to \$935.8 million on October 31, 2006, due to new debt placed on new and existing properties, from \$765.9 million on April 30, 2006. Approximately 98% of such mortgage debt is at fixed rates of interest, with staggered maturities. This limits the Company's exposure to changes in interest rates, which minimizes the effect of interest rate fluctuations on the Company's results of operations and cash flows. As of October 31, 2006, the weighted average rate of interest on the Company's mortgage debt was 6.43%, compared to 6.63% on April 30, 2006.

Real Estate Owned. Real estate owned increased to \$1,434.9 million at October 31, 2006 from \$1,269.4 million at April 30, 2006. The increase resulted primarily from the acquisition of the additional investment properties net of dispositions as described above in the “Property Acquisitions and Dispositions” subsection of this Management’s Discussion and Analysis of Financial Condition and Results of Operations.

Investment Certificates. The Company discontinued the issuance of investment certificates in April 2002. As of October 31, 2006, investment certificates outstanding totaled \$0.8 million, compared to \$2.5 million of such certificates outstanding on April 30, 2006. This decrease resulted from the redemption of maturing investment certificates during the first two quarters of fiscal year 2007.

Cash and Cash Equivalents. Cash and cash equivalents on hand on October 31, 2006 were \$67.9 million, compared to \$17.5 million on April 30, 2006. The increase in cash on hand on October 31, 2006, as compared to April 30, 2006, was due primarily to the refinancing of mortgage debt and to cash proceeds received under a loan from Citigroup Global Markets Realty Corp. in connection with the Company’s acquisition of a portfolio of properties from Magnum Resources, Inc.

Marketable Securities. The Company’s investment in marketable securities classified as available-for-sale was \$1.6 million on October 31, 2006, and \$2.4 million on April 30, 2006. Marketable securities are held available for sale and, from time to time, the Company invests excess funds in such securities or uses the funds so invested for operational purposes.

Operating Partnership Units. Outstanding units in the Operating Partnership increased to 19.5 million Units on October 31, 2006, compared to 13.7 million Units outstanding on April 30, 2006. This increase resulted primarily from the issuance of additional limited partnership units to acquire interests in real estate, net of Units converted to common shares.

Common and Preferred Shares of Beneficial Interest. Common shares of beneficial interest outstanding on October 31, 2006 totaled 47.7 million, compared to 46.9 million outstanding on April 30, 2006. This increase in common shares outstanding was primarily due to the issuance of common shares pursuant to our Distribution Reinvestment Plan, consisting of approximately 333,788 common shares issued on July 1, 2006 and approximately 311,705 shares issued on October 3, 2006, for total value of \$5.8 million. Conversions of 127,576 UPREIT Units to common shares, for a total of \$1,294,000 in shareholders’ equity, also increased the Company’s common shares of beneficial interest outstanding during the six months ended October 31, 2006. Preferred shares of beneficial interest outstanding on October 31, 2006 and April 30, 2006 totaled 1.15 million.

PENDING ACQUISITIONS AND DISPOSITIONS

As of October 31, 2006, the Company had signed an agreement to acquire an approximately 71,000 rentable square foot office building in Highlands Ranch, Colorado, for a purchase price of approximately \$12,250,000. The Company closed on this acquisition in November 2006. See Note 9, Subsequent Events, for additional information. As of October 31, 2006, the Company had signed agreements to sell a small retail property in Faribault, Minnesota and an apartment complex in Fargo, North Dakota, for sales prices totaling approximately \$6,775,000. These pending dispositions are subject to various closing conditions and contingencies, and no assurance can be given that these dispositions will be completed.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our exposure to market risk is limited primarily to fluctuations in the general level of interest rates on our current and future fixed and variable rate debt obligations.

Variable interest rates. Because approximately 98% of our debt, as of October 31, 2006 (97% as of April 30, 2006), is at fixed interest rates, we have little exposure to interest rate fluctuation risk on our existing debt, and accordingly interest rate increases during the second quarter of fiscal year 2007 did not have a material effect on the Company. However, even though our goal is to maintain a fairly low exposure to interest rate risk, we are still vulnerable to significant fluctuations in interest rates on any future repricing or refinancing of our fixed or variable rate debt, and on future debt. We primarily use long-term (more than nine years) and medium term (five to seven years) debt as source of capital. We do not currently use derivative securities, interest-rate swaps or any other type of hedging activity to manage our interest rate risk. As of October 31, 2006, we had the following amount of future principal and interest payments due on mortgages secured by our real estate:

Future Principal Payments (in thousands)

| Long Term Debt | Remaining | | | | | | Total |
|---------------------------|-----------|-----------|-----------|------------|-----------|------------|------------|
| | 2007 | 2008 | 2009 | 2010 | 2011 | Thereafter | |
| Fixed Rate | \$ 11,187 | \$ 29,349 | \$ 42,447 | \$ 107,791 | \$ 99,920 | \$ 622,774 | \$ 913,468 |
| Variable Rate | 543 | 1,142 | 2,709 | 1,170 | 1,240 | 15,537 | 22,341 |
| | | | | | | | \$ 935,809 |
| Average Interest Rate (%) | (1) | (1) | (1) | (1) | (1) | (1) | (1) |

Future Interest Payments (in thousands)

| Long Term Debt | Remaining | | | | | | Total |
|---------------------------|-----------|-----------|-----------|-----------|-----------|------------|------------|
| | 2007 | 2008 | 2009 | 2010 | 2011 | Thereafter | |
| Fixed Rate | \$ 22,790 | \$ 53,716 | \$ 53,045 | \$ 49,862 | \$ 45,477 | \$ 200,813 | \$ 425,703 |
| Variable Rate (2) | 1,372 | 1,992 | 1,908 | 1,700 | 1,606 | 3,753 | 12,331 |
| | | | | | | | \$ 438,034 |
| Average Interest Rate (%) | (1) | (1) | (1) | (1) | (1) | (1) | (1) |

(1) The weighted average interest rate on our debt as of October 31, 2006, was 6.43%. Any fluctuations in variable interest rates could increase or decrease our interest expenses. For example, an increase of one percent per annum on our \$22.3 million of variable rate indebtedness would increase our annual interest expense by \$223,000.

(2) Based on rates in effect at October 31, 2006.

ITEM 4. CONTROLS AND PROCEDURES

IRET's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this report. Based on such evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of October 31, 2006, such disclosure controls and procedures were effective.

Internal Control Over Financial Reporting: There have not been any changes in the Company's internal control over financial reporting (as such term is defined in Rule 13a-15(f) under the Securities and Exchange Act of 1934, as amended) during the fiscal quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II OTHER INFORMATION
Item 1. Legal Proceedings

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

Item 1A. Risk Factors

There have been no material changes in the risk factors disclosed in our Annual Report on Form 10-K for the year ending April 30, 2006.

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

During the second quarter of fiscal year 2007, the Company issued an aggregate of 43,998 unregistered common shares to holders of limited partnership units of IRET Properties, on a one-for-one basis upon redemption and conversion of an equal number of limited partnership units. All such issuances of common shares were exempt from registration as private placements under Section 4(2) of the Securities Act, including Regulation D promulgated thereunder. The Company has registered the re-sale of such common shares under the Securities Act.

Item 3 is not applicable and has been omitted.

Item 4. Submission of Matters to a Vote of Security Holders.

At the Company's Annual Meeting of Shareholders, held on September 19, 2006, the following action was taken:

The shareholders elected the eight individuals nominated to serve as trustees of the Company until the 2007 Annual Meeting of Shareholders or until the election and qualification of their successors, as set forth in Proxy Item No. 1 in the Company's notice of the Annual Meeting and the Proxy Statement relating to the Annual Meeting. The eight individuals elected, and the number of votes cast for, or withheld, with respect to each of them, follows:

| <u>Nominee</u> | <u>Votes For</u> | <u>Votes Withheld</u> |
|----------------------|------------------|-----------------------|
| Patrick G. Jones | 31,470,965 | 968,275 |
| Timothy P. Mihalick | 31,471,649 | 967,591 |
| Jeffrey L. Miller | 31,473,343 | 965,897 |
| C. W. "Chip" Morgan | 31,430,139 | 1,009,100 |
| Edward T. Schafer | 31,328,048 | 1,111,192 |
| Stephen L. Stenehjem | 31,310,035 | 1,129,205 |
| John D. Stewart | 31,303,662 | 1,135,578 |
| Thomas A. Wentz, Jr. | 29,807,458 | 2,631,782 |

The proposal to approve the appointment of Deloitte & Touche LLP as the independent auditors for fiscal year 2007 received the following votes:

- 31,436,012 Votes for Approval

- 855,451 Votes Against
- 147,773 Abstentions

There were no broker non-votes for this item.

Item 5. Other Information.

None

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Item 6. Exhibits

**Exhibit Description
No.**

| | |
|------|---|
| 31.1 | Certification by Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2 | Certification by Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32 | Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |

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Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

INVESTORS REAL ESTATE TRUST
(Registrant)

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

/s/ Diane K. Bryantt
Diane K. Bryantt
Senior Vice President and Chief Financial Officer

Date: December 11, 2006