

INVESTORS REAL ESTATE TRUST

Form 10-Q

December 10, 2010

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

Form 10-Q

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

For Quarter Ended October 31, 2010

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
3015 16th Street SW, Suite 100
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 has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

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

Large accelerated filer

Accelerated filer

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Non-accelerated filer

Smaller Reporting Company

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

Yes

No

Registrant is a North Dakota Real Estate Investment Trust. As of December 6, 2010, it had 79,414,205 common shares of beneficial interest outstanding.

TABLE OF CONTENTS

	Page
<u>Part I. Financial Information</u>	
<u>Item 1. Financial Statements - Second Quarter - Fiscal 2011:</u>	3
<u>Condensed Consolidated Balance Sheets (unaudited)</u>	3
<u>October 31, 2010 and April 30, 2010</u>	
<u>Condensed Consolidated Statements of Operations (unaudited)</u>	4
<u>For the Three and Six Months ended October 31, 2010 and 2009</u>	
<u>Condensed Consolidated Statements of Equity (unaudited)</u>	5
<u>For the Six Months ended October 31, 2010 and 2009</u>	
<u>Condensed Consolidated Statements of Cash Flows (unaudited)</u>	6
<u>For the Six Months ended October 31, 2010 and 2009</u>	
<u>Notes to Condensed Consolidated Financial Statements (unaudited)</u>	8
<u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	20
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	35
<u>Item 4. Controls and Procedures</u>	36
<u>Part II. Other Information</u>	
<u>Item 1. Legal Proceedings</u>	36
<u>Item 1A. Risk Factors</u>	36
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	36
<u>Item 3. Defaults Upon Senior Securities</u>	36
<u>Item 4. Reserved</u>	36
<u>Item 5. Other Information</u>	36
<u>Item 6. Exhibits</u>	36
<u>Signatures</u>	37

Table of Contents

2

PART I
ITEM 1. FINANCIAL STATEMENTS - SECOND QUARTER - FISCAL 2011
INVESTORS REAL ESTATE TRUST AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS (unaudited)

	(in thousands, except share data)	
	October 31,	April 30, 2010
	2010	
ASSETS		
Real estate investments		
Property owned	\$ 1,773,924	\$ 1,800,519
Less accumulated depreciation	(322,379)	(308,626)
	1,451,545	1,491,893
Development in progress	2,755	2,831
Unimproved land	7,876	6,007
Mortgage loans receivable, net of allowance of \$3 and \$3, respectively	157	158
Total real estate investments	1,462,333	1,500,889
Other assets		
Cash and cash equivalents	43,701	54,791
Marketable securities – available-for-sale	420	420
Receivable arising from straight-lining of rents, net of allowance of \$954 and \$912, respectively	18,125	17,320
Accounts receivable, net of allowance of \$336 and \$257, respectively	5,179	4,916
Real estate deposits	2,089	516
Prepaid and other assets	3,375	1,189
Intangible assets, net of accumulated amortization of \$43,502 and \$39,571, respectively	48,140	50,700
Tax, insurance, and other escrow	10,504	9,301
Property and equipment, net of accumulated depreciation of \$1,123 and \$924, respectively	1,370	1,392
Goodwill	1,260	1,388
Deferred charges and leasing costs, net of accumulated amortization of \$14,115 and \$13,131, respectively	18,606	18,108
TOTAL ASSETS	\$ 1,615,102	\$ 1,660,930
LIABILITIES AND EQUITY		
LIABILITIES		
Accounts payable and accrued expenses	\$ 26,616	\$ 38,514
Revolving lines of credit	29,100	6,550
Mortgages payable	1,004,532	1,057,619
Other	1,227	1,320
TOTAL LIABILITIES	1,061,475	1,104,003
COMMITMENTS AND CONTINGENCIES (NOTE 6)		
REDEEMABLE NONCONTROLLING INTERESTS –		
CONSOLIDATED REAL ESTATE ENTITIES	1,357	1,812
EQUITY		
Investors Real Estate Trust shareholders' equity		
Preferred Shares of Beneficial Interest (Cumulative redeemable preferred shares, no par value, 1,150,000 shares issued and outstanding at October 31, 2010 and	27,317	27,317

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April 30, 2010, aggregate liquidation preference of \$28,750,000)		
Common Shares of Beneficial Interest (Unlimited authorization, no par value, 79,092,504 shares issued and outstanding at October 31, 2010, and 75,805,159 shares issued and outstanding at April 30, 2010)	610,580	583,618
Accumulated distributions in excess of net income	(221,304)	(201,412)
Total Investors Real Estate Trust shareholders' equity	416,593	409,523
Noncontrolling interests – Operating Partnership (19,993,682 units at October 31, 2010 and 20,521,365 units at April 30, 2010)	126,113	134,970
Noncontrolling interests – consolidated real estate entities	9,564	10,622
Total equity	552,270	555,115
TOTAL LIABILITIES AND EQUITY	\$ 1,615,102	\$ 1,660,930

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

Table of Contents

3

INVESTORS REAL ESTATE TRUST AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited)
for the three and six months ended October 31, 2010 and 2009

	Three Months Ended October 31		Six Months Ended October 31	
	(in thousands, except per share data)			
	2010	2009	2010	2009
REVENUE				
Real estate rentals	\$49,406	\$47,216	\$98,787	\$94,866
Tenant reimbursement	11,131	11,004	22,467	22,795
TOTAL REVENUE	60,537	58,220	121,254	117,661
EXPENSES				
Depreciation/amortization related to real estate investments	14,103	14,169	28,334	27,977
Utilities	4,494	4,245	8,676	8,296
Maintenance	6,922	6,469	13,992	13,525
Real estate taxes	7,534	7,698	15,435	15,405
Insurance	794	918	1,272	1,852
Property management expenses	5,206	4,438	10,506	8,385
Administrative expenses	1,582	1,365	3,339	2,721
Advisory and trustee services	136	133	348	264
Other expenses	563	498	916	932
Amortization related to non-real estate investments	639	549	1,293	1,124
Impairment of real estate investments	0	708	0	708
TOTAL EXPENSES	41,973	41,190	84,111	81,189
Interest expense	(16,880)	(16,734)	(33,395)	(33,666)
Interest income	65	61	119	126
Other income	102	64	185	127
Income from continuing operations before income taxes	1,851	421	4,052	3,059
Income tax benefit	19	0	0	0
Income from continuing operations	1,870	421	4,052	3,059
Income (loss) from discontinued operations	5,251	(221)	5,401	(290)
NET INCOME	7,121	200	9,453	2,769
Net (income) loss attributable to noncontrolling interests – Operating Partnership	(1,322)	59	(1,692)	(420)
Net loss (income) attributable to noncontrolling interests – consolidated real estate entities	20	26	44	(47)
Net income attributable to Investors Real Estate Trust	5,819	285	7,805	2,302
Dividends to preferred shareholders	(593)	(593)	(1,186)	(1,186)
NET INCOME (LOSS) AVAILABLE TO COMMON SHAREHOLDERS	\$5,226	\$(308)	\$6,619	\$1,116
Earnings per common share from continuing operations – Investors Real Estate Trust – basic and diluted	.01	.00	.03	.02
Earnings per common share from discontinued operations – Investors Real Estate Trust – basic and diluted	.06	.00	.06	.00
NET INCOME PER COMMON SHARE – BASIC AND DILUTED	\$.07	\$.00	\$.09	\$.02
DIVIDENDS PER COMMON SHARE	.1715	.1710	.3430	.3415

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

Table of Contents

4

INVESTORS REAL ESTATE TRUST AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF EQUITY (unaudited)
for the six months ended October 31, 2010 and 2009

(in thousands)

	NUMBER OF PREFERRED SHARES	NUMBER OF PREFERRED SHARES	NUMBER OF COMMON SHARES	NUMBER OF COMMON SHARES	ACCUMULATED DISTRIBUTIONS IN EXCESS OF NET INCOME	NONCONTROLLING INTERESTS	TOTAL EQUITY
Balance April 30, 2009	1,150	\$ 27,317	60,304	\$461,648	\$ (155,956)	\$ 160,398	\$493,407
Net income attributable to Investors Real Estate Trust and nonredeemable noncontrolling interests					2,302	435	2,737
Distributions – common shares					(21,740)	(7,133)	(28,873)
Distributions – preferred shares					(1,186)		(1,186)
Distribution reinvestment plan			615	5,207			5,207
Shares issued			12,415	98,706			98,706
Partnership units issued						2,888	2,888
Redemption of units for common shares			168	1,114		(1,114)	0
Adjustments to redeemable noncontrolling interests				(278)			(278)
Other				(2)		(547)	(549)
Balance October 31, 2009	1,150	\$ 27,317	73,502	\$566,395	\$ (176,580)	\$ 154,927	\$572,059
Balance April 30, 2010	1,150	\$ 27,317	75,805	\$583,618	\$ (201,412)	\$ 145,592	\$555,115
Net income attributable to Investors Real Estate Trust and					7,805	1,631	9,436

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nonredeemable noncontrolling interests								
Distributions – common shares				(26,511)		(6,971)		(33,482)
Distributions – preferred shares				(1,186)				(1,186)
Distribution reinvestment plan	669		5,480					5,480
Shares issued	2,091		17,380					17,380
Redemption of units for common shares	528		3,578			(3,578)		0
Adjustments to redeemable noncontrolling interests			472					472
Other			52			(997)		(945)
Balance October 31, 2010	1,150	\$ 27,317	79,093	\$610,580	\$ (221,304)	\$ 135,677		\$552,270

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

Table of Contents

5

INVESTORS REAL ESTATE TRUST AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)
for the six months ended October 31, 2010 and 2009

	Six Months Ended October 31 (in thousands)	
	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	\$9,453	\$2,769
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	31,166	30,335
Gain on sale of real estate, land and other investments	(5,404)	0
Impairment of real estate investments	0	860
Bad debt expense	179	818
Changes in other assets and liabilities:		
Increase in receivable arising from straight-lining of rents	(847)	(668)
Increase in accounts receivable	(125)	(1,281)
Increase in prepaid and other assets	(2,185)	(1,699)
Increase (decrease) in tax, insurance and other escrow	(1,203)	600
Increase in deferred charges and leasing costs	(2,845)	(1,959)
Decrease in accounts payable, accrued expenses, and other liabilities	(9,602)	(2,845)
Net cash provided by operating activities	18,587	26,930
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from real estate deposits	629	717
Payments for real estate deposits	(2,202)	(1,264)
Principal proceeds on mortgage loans receivable	1	1
Proceeds from sale of real estate - discontinued operations	36,373	0
Proceeds from sale of real estate and other investments	0	34
Insurance proceeds received	140	625
Payments for acquisitions and improvements of real estate investments	(16,788)	(21,673)
Net cash provided (used) by investing activities	18,153	(21,560)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from mortgages payable	24,325	77,335
Principal payments on mortgages payable	(81,699)	(86,245)
Principal payments on revolving lines of credit and other debt	(6,550)	(15,523)
Proceeds from revolving lines of credit and other debt	29,100	15,500
Proceeds from sale of common shares, net of issue costs	17,127	98,556
Repurchase of fractional shares and partnership units	(2)	(2)
Payments for acquisition of noncontrolling interests – consolidated real estate entities	(425)	0
Distributions paid to common shareholders, net of reinvestment of \$5,132 and \$4,800, respectively	(21,379)	(16,940)
Distributions paid to preferred shareholders	(1,186)	