

INVESTORS REAL ESTATE TRUST

Form S-3/A

April 01, 2004

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As filed with the Securities and Exchange Commission on March 31, 2004

Registration No. 333-112465

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

**PRE-EFFECTIVE  
AMENDMENT NO. 1  
TO  
Form S-3  
REGISTRATION STATEMENT  
UNDER  
THE SECURITIES ACT OF 1933**

**Investors Real Estate Trust**

*(Exact name of issuer as specified in its charter)*

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

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

**12 South Main Street  
Minot, ND 58701  
(701) 837-4738**  
*(Address, Including Zip Code, and Telephone Number, Including Area Code,  
of Registrant's Principal Executive Offices)*

**Karin Wentz, Esq.  
Associate General Counsel  
21500 Highway 7  
P.O. Box 560  
Excelsior, MN 55331  
(952) 401-6600**  
*(Name, Address, Including Zip Code, and Telephone Number,  
Including Area Code, of Agent for Service)*

*Copies to:*

**Joseph T. Kinning, Esq.  
Amy E. Dahl, Esq.  
Gray, Plant, Mooty, Mooty & Bennett, P.A.  
500 IDS Center  
80 South Eighth Street  
Minneapolis, Minnesota 55402-3796  
(612) 632-3000**

**Approximate date of commencement of proposed sale to the public:** From time to time after the effective date of this registration statement as determined by market conditions and other factors.

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If the only securities being registered on this form are being offered pursuant to dividend or interest reinvestment plans, please check the following box. [ ]

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If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box.  [X]

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of earlier effective registration statement for same offering. [ ]

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for same offering. [ ]

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. [ ]

**CALCULATION OF REGISTRATION FEE**

Title of securities to be Registered <sup>(1)</sup>	Amount to be Registered	Proposed maximum Offering price	Proposed maximum aggregate offering price <sup>(1)</sup>	Amount of registration fee <sup>(2)</sup>
Shares of Beneficial Interest, no par value <sup>(3)</sup>				
Preferred Shares of Beneficial Interest, no par value <sup>(4)</sup>				
<b>Total</b>	\$ 150,000,000	100%	\$ 150,000,000	\$ 19,005 <sup>(5)</sup>

<sup>(1)</sup> Estimated solely for the purpose of calculating the registration fee.

<sup>(2)</sup> The proposed maximum offering price per unit has been omitted pursuant to the General Instruction II.D of Form S-3 under the Securities Act of 1933, as amended. The registration fee has been calculated in accordance with Rule 457(o) under the Securities Act of 1933, as amended.

<sup>(3)</sup> An indeterminate number of our shares of beneficial interest, no par value, is registered hereunder and may be sold from time to time by the Registrant.

<sup>(4)</sup> An indeterminate number of our preferred shares of beneficial interest, no par value, is registered hereunder and may be sold from time to time by the Registrant.

<sup>(5)</sup> Previously paid by the Registrant in connection with the filing of the Form S-3 on February 3, 2004.

**The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant files a further amendment which specifically states that this Registration Statement will thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until the Registration Statement becomes effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.**

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Information contained herein is subject to completion or amendment. A registration statement relating to these securities has been filed with the Securities and Exchange Commission. These securities may not be sold nor may offers to buy be accepted prior to the time the registration statement becomes effective. This prospectus supplement shall not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any State in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such State.

**Subject to Completion  
Dated March 31, 2004**

**PROSPECTUS SUPPLEMENT  
(To Prospectus dated April \_\_, 2004)**

**Investors Real Estate Trust**

**1,200,000 Shares of Beneficial Interest**

We are offering and selling up to 1,200,000 of our shares of beneficial interest, no par value, at an offering price of \$10.10 per share and an aggregate public offering price of \$12,120,000. Our shares of beneficial interest, which we refer to in this prospectus supplement as our Shares, are the functional equivalent of common stock, having the rights and preferences normally associated with common stock. Our Shares are traded on the NASDAQ National Market under the symbol IRETS. On March 15, 2004, the last reported sale price of our Shares, as reported on the NASDAQ National Market, was \$9.94 per share.

This public offering of our Shares is not being underwritten. The Shares are being offered on a best-efforts basis by broker-dealers who have signed a sales agreement with us and who are registered with the National Association of Securities Dealers. The broker-dealers are not required to sell any specific number or dollar amount of Shares, but will use their best efforts to sell the Shares offered. The broker-dealers will be paid a five per cent commission per share sold. Any money received from purchasers of Shares, less selling commissions, will go immediately to us and will not be placed in escrow or trust. This offering will end when all of the Shares have been sold or when we elect to terminate the offering, whichever occurs first.

**Investing in our Shares involves risks. See Risk Factors beginning on page S-9 of this prospectus supplement.**

	<u>Per Share</u>	<u>Total if all Shares sold</u>	<u>Percentage</u>
Public Offering Price	\$10.100	\$12,120,000	100%
Less Selling Commission	\$ .505	\$ 606,000	5%
Proceeds, before expenses, to us	\$ 9.595	\$11,514,000	95%

After the payment of all sales commissions, fees and expenses associated with this offering, and assuming all Shares are sold, we will receive approximately \$11,514,000 or 95% of the sale proceeds.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus is April \_\_\_\_, 2004.

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**ABOUT THIS PROSPECTUS SUPPLEMENT  
AND THE ACCOMPANYING PROSPECTUS**

We are providing information to you about this offering of our Shares in two parts. The first part is this prospectus supplement, which provides the specific details regarding this offering and the terms of the Shares. The second part is the accompanying base prospectus, which provides general information. Generally, when we refer to this prospectus, we are referring to both documents combined. Some of the information in the base prospectus may not apply to this offering. If information in this prospectus supplement, or information incorporated by reference into this prospectus supplement, is inconsistent with the accompanying prospectus, you should rely on this prospectus supplement or the information incorporated by reference.

You should rely only on the information contained or incorporated by reference in this prospectus supplement and the accompanying base prospectus. We have not authorized any dealer, sales representative or any other person to provide you with different or additional information. If anyone provides you with different or additional information, you should not rely on it. We are not making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. You should not assume that the information appearing in this prospectus supplement and the accompanying base prospectus is accurate as of any date other than the date on the front of the documents. Our business, financial condition, results of operations and prospects may have changed since then. Updated information may have been provided in the meantime as explained in this prospectus supplement under the heading *Where You Can Find More Information*.

It is important for you to read and consider all of the information contained in this prospectus supplement and the accompanying base prospectus in making your decision to invest in our Shares. You should also read and consider the information in the documents we have referred you to in this prospectus supplement under the heading *Where You Can Find More Information*.

As used in this prospectus supplement, references to *we*, *our*, *us*, *the Company*, *IRET* and similar references mean Investors Real Estate Trust and its consolidated subsidiaries, unless otherwise expressly stated or the context otherwise requires. References to *Shares* are to our shares of beneficial interest, no par value. References to *securities* are to all of our issued and outstanding shares of beneficial interest (including, without limitation, the shares offered by this prospectus and any other shares of beneficial interest that we issue in the future).



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**PROSPECTUS SUPPLEMENT SUMMARY**

*This section summarizes information contained elsewhere in this prospectus supplement and the accompanying base prospectus and may not contain all of the information that is important to you. You should read this summary together with the more detailed information appearing elsewhere in this prospectus supplement, the accompanying base prospectus and incorporated by reference into this prospectus supplement and the accompanying base prospectus, including the section of this prospectus supplement entitled Risk Factors.*

**IRET**

We are a self-advised equity real estate investment trust, or REIT, organized under the laws of North Dakota. Our business consists of owning and operating income-producing real properties. Our investments include multi-family residential properties and commercial properties. These properties are located primarily in the upper Midwest states of Minnesota and North Dakota. The charts below show the geographic distribution of our properties and their classification by type, in both cases measured on the basis of total asset value, which is the amount we have invested in our properties (original investment plus improvements, if any).

As of January 31, 2004, our real estate portfolio consisted of:

68 multi-family residential properties, containing 8,873 apartment units and having a total asset value less accumulated depreciation of \$381.0 million; and

127 commercial properties, containing 6.8 million square feet of leasable space and having a total asset value less accumulated depreciation of \$552.0 million.

Our multi-family residential properties include apartment buildings, complexes and communities. Our commercial properties include office buildings, retail stores and centers, industrial facilities and health care properties, such as clinics and assisted living centers. These commercial properties are typically leased to tenants under long term lease arrangements, with no single tenant currently accounting for more than approximately 10% of our total annual commercial rental revenues. At January 31, 2004, the economic occupancy rates for our stabilized multi-family residential and commercial properties were approximately 91% and 94%, respectively. We define economic occupancy as total possible revenue less vacancy loss as a percentage of total possible revenue. Total possible revenue is determined by valuing occupied units or square footage at contract rates, and vacant units or square footage at market rates.

Our principal executive office is located at 12 South Main, Minot, North Dakota 58701 and our telephone number is (701) 837-4738.

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**INVESTMENT STRATEGY**

We employ an investment strategy focused on growing assets in desired geographical markets, achieving diversification by property type, adhering to targeted returns in acquiring properties, and regularly increasing funds from operations and distribution rates on our shares of beneficial interest. We have increased our distributions per share of beneficial interest every year since our inception 34 years ago and every quarter since 1988.

We attempt to concentrate our multi-family residential properties in communities with populations of approximately 50,000 to 500,000 and we attempt to concentrate our commercial properties in metropolitan areas with populations of approximately 100,000 to 3.0 million. We focus most of our investment activity in markets in the upper Midwest, due to our greater familiarity with these markets, our existing market presence and our belief that these markets attract less competition from other leading REITs and institutional investors. Approximately 64% of our commercial properties, by total asset value, are located in the Minneapolis/St. Paul metropolitan area.

We generally contract with locally-based third-party professional management companies to handle the day-to-day management of our properties. We believe that the use of locally-based management companies allows us to enjoy the benefits of local knowledge of the applicable real estate market, while avoiding the cost and difficulty associated with maintaining management personnel in every location in which we operate.

**THE OFFERING**

Shares offered	1,200,000 of our shares of beneficial interest, no par value.
Shares outstanding after the offering	42,226,126*
Offering price per share	\$10.10.
NASDAQ listing	Our Shares are listed on the NASDAQ National Market under the symbol IRETS.
Restriction on ownership and transfer	Our Shares are subject to certain restrictions on ownership and transfer designed to preserve our qualification as a REIT for federal income tax purposes. See Description of Our Shares Ownership and Transfer Restrictions beginning on page S-21 of this prospectus supplement.
Use of proceeds	We expect to receive proceeds from this offering of our Shares (before expenses but after selling commissions) of approximately \$11,514,000. We intend to contribute the net proceeds to our operating partnership, IRET Properties, to use for the acquisition, development, renovation, expansion or improvement of income-producing real estate properties.
Risk factors	An investment in our Shares involves risks and prospective investors should carefully consider the matters discussed in this prospectus supplement under the heading Risk Factors beginning on page S-9, before making a decision to invest in our Shares.

*\* Based on 41,026,126 shares outstanding at January 31, 2004. The number of shares outstanding after the offering does not include 11,382,713 shares issuable upon conversion of limited partnership units. Limited*

*partnership units are convertible into shares on a one-to-one basis after the expiration of a minimum one-year holding period. The number of shares outstanding after the offering assumes that all 1,200,000 Shares offered will be sold. Since the offering is being made on a best-efforts basis there is no guarantee that any Shares will be sold.*

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The following sets forth the high and low sale prices for our Shares as reported by the NASDAQ SmallCap Market for the period of May 1, 2000, through April 8, 2002, and as reported by the NASDAQ National Market for the period of April 9, 2002, through January 31, 2004, and the distributions we paid with respect to each period.

	<u>High</u>	<u>Low</u>	<u>Distribution per Share</u>
<b>Fiscal 2002</b>			
First Quarter ending July 31, 2001	\$10.49	\$8.25	\$0.1450
Second Quarter ending October 31, 2001	9.43	8.80	0.1475
Third Quarter ending January 31, 2002	10.00	9.00	0.1500
Fourth Quarter ending April 30, 2002	10.45	9.51	0.1520
<b>Fiscal 2003</b>			
First Quarter ending July 31, 2002	\$11.90	\$8.55	\$0.1540
Second Quarter ending October 31, 2002	11.00	9.05	0.1560
Third Quarter ending January 31, 2003	11.00	9.66	0.1570
Fourth Quarter ending April 30, 2003	10.00	8.98	0.1580
<b>Fiscal 2004</b>			
First Quarter ending July 31, 2003	\$10.81	\$9.28	\$0.1585
Second Quarter ending October 31, 2003	10.48	9.69	0.1590
Third Quarter ending January 31, 2004	10.70	9.88	0.1595

We have paid quarterly distributions since July 1, 1971. Distributions are generally paid in January, April, July and October of each year. Our last quarterly distribution of \$.1595 per Share was paid on January 26, 2004. On March 1, 2004, our Board declared a regular quarterly distribution of \$.1600 per Share payable on April 1, 2004. The record date and pay date for such regular quarterly distribution will precede the closing of this offering and, as such, persons purchasing Shares pursuant to this prospectus will not be entitled to receive such distribution.

**SELECTED CONSOLIDATED FINANCIAL DATA**

The following table sets forth selected consolidated financial data, which should be read in conjunction with, and is qualified by reference to, the consolidated financial statements and related notes and Management's Discussion and Analysis of Financial Condition and Results of Operations incorporated by reference into this prospectus supplement. Our selected consolidated financial data as of and for each of the fiscal years in the three-year period ended April 30, 2003, are derived from our consolidated financial statements, which have been audited by Brady, Martz & Associates, P.C. Our selected consolidated financial data as of January 31, 2004, and for each of the nine months ended January 31, 2004 and 2003, has been derived from our unaudited financial statements. Our unaudited financial statements have been prepared on the same basis as our audited financial statements and include all adjustments, consisting only of normal recurring adjustments, that we consider necessary for a fair presentation of our financial position and our results of operations for these periods. Operating results for the nine months ended January 31, 2004, are not necessarily indicative of the results that may be expected for the full year.

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	<b>Nine Months Ended January 31</b>		<b>Fiscal Year Ended April 30</b>		
	<b>(in thousands, except per share data)</b>				
	<b>2004</b>	<b>2003</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>
<b>Operating Data:</b>					
Revenue	\$ 102,400	\$ 86,738	\$ 119,135	\$ 90,943	\$ 74,130
Operating expenses:					
Interest	31,794	26,981	37,073	30,089	24,694
Depreciation/Amortization	18,281	14,479	20,115	15,789	12,474
Utilities and maintenance	17,415	14,178	19,821	12,374	11,175
Property management	7,190	6,219	8,320	6,892	5,690
Taxes	12,635	9,886	13,568	9,056	7,393
Other operating expenses	4,988	3,751	5,209	3,545	2,702
Total operating expenses	\$ 92,303	\$ 75,494	\$ 104,106	\$ 77,745	\$ 64,128
Operating income	\$ 10,097	\$ 11,244	\$ 15,029	\$ 13,198	\$ 10,002
Non-operating income	290	688	830	1,062	753
Income before gain/loss on properties and minority interest	10,387	11,932	15,859	14,260	10,755
Gain on sale of property	13	315	315	547	602
Minority interest portion of joint ventures	(598)	(674)	(934)	(199)	
Minority interest portion of operating partnership income	(2,337)	(2,866)	(3,679)	(3,714)	(2,211)
Income from continuing operations	\$ 7,465	\$ 8,707	\$ 11,561	\$ 10,894	9,146
Discontinued operations, net	559	(259)	687	(294)	(452)
Net income	\$ 8,024	\$ 8,448	\$ 12,248	\$ 10,600	\$ 8,694
<b>Other Data:</b>					
Funds from operations <sup>(1)</sup>	\$ 27,545	\$ 25,296	\$ 34,179	\$ 29,143	\$ 22,440
Cash distributions to holders of common shares and unitholders	18,058	14,851	20,334	15,325	12,673
<b>Per Share Data:</b>					
Net income	\$ 0.21	\$ 0.27	\$ 0.38	\$ 0.42	\$ 0.38
Funds from operations <sup>(1)</sup>	0.56	0.61	0.80	0.86	0.79
Cash distributions	0.48	0.47	0.63	0.59	0.55
<b>Balance Sheet Data:</b>					
Total real estate investments	\$ 936,708	\$ 845,325	\$ 844,142	\$ 681,394	\$ 547,543
Total assets	993,937	885,681	885,681	730,209	570,322
Total liabilities	637,411	576,318	576,318	495,352	389,086

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Minority interest in partnerships	16,734	14,225	14,225	12,819	3,288
Minority interests in operating partnerships	89,524	80,377	80,377	76,460	59,003
Total shareholders equity	250,268	214,761	214,761	145,578	118,945

(1) We consider funds from operations, or FFO, a useful measure of performance for an equity REIT. We use the definition of FFO adopted by the National Association of Real Estate Investment Trusts, or 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 or GAAP), excluding gains (or losses) from sales of depreciated 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 FFO on the same basis.

While we use the NAREIT definition of FFO, the components of that definition in many cases require interpretation and, accordingly, we have made certain interpretations in applying the definition. In particular, in calculating FFO per share, we add back to net income

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computed in accordance with GAAP the allocations made to limited partners of IRET Properties, and divide this amount by the total outstanding number of our common shares and limited partnership units, or LP units, of IRET Properties. Under the partnership agreement pursuant to which the LP units of IRET Properties are issued, holders of LP units effectively have the same claim on our earnings and assets of as do the holders of our common shares and, therefore, we consider that the LP units of IRET Properties also should be included with the common shares in calculating FFO per share.

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.

FFO should not be considered as an alternative to net income as determined in accordance with GAAP as a measure of our performance, but rather should be considered as an additional, supplemental measure. 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 our needs or our ability to service indebtedness or make distributions.

A reconciliation of FFO to GAAP net income is as follows:

	<b>Nine Months Ended January 31</b>		<b>Fiscal Year Ended April 30</b>		
	<b>2004</b>	<b>2003</b>	<b>(in thousands, except per share data)</b>		
	<b>2004</b>	<b>2003</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>
<b>Net income</b>	\$ 8,024	\$ 8,448	\$12,248	\$10,600	\$ 8,694
Add back:					
Minority interest in earnings of holders of LP units	2,354	2,782	3,899	3,614	2,095
Depreciation and amortization <sup>(a)</sup>	17,683	14,230	19,627	15,476	12,253
(Gain) loss from depreciable property sales	(516)	(164)	(1,595)	(547)	(602)
<b>Fully diluted FFO</b>	<b>\$27,545</b>	<b>\$25,296</b>	<b>\$34,179</b>	<b>\$29,143</b>	<b>\$22,440</b>
Weighted averages shares outstanding:					
Common shares	38,473	31,490	32,574	25,492	23,072
Common shares issuable to holders of LP units <sup>(b)</sup>	11,093	10,037	10,041	8,289	5,506
Total	49,566	41,527	42,615	33,781	28,578
<b>Net income per common share<sup>(c)</sup></b>	<b>\$ 0.21</b>	<b>\$ 0.27</b>	<b>\$ 0.38</b>	<b>\$ 0.42</b>	<b>\$ 0.38</b>
<b>FFO per common share<sup>(c)</sup></b>	<b>\$ 0.56</b>	<b>\$ 0.61</b>	<b>\$ 0.80</b>	<b>\$ 0.86</b>	<b>\$ 0.79</b>

(a) Depreciation on office equipment and other assets used by us is excluded. Amortization of financing and other expenses is excluded, except for amortization of leasing commissions which is included.

(b) LP units of IRET Properties are exchangeable for common shares on a one-for-one basis.

- (c) Net income per common share is calculated using the number of outstanding common shares. FFO per common share is calculated using the number of common shares outstanding and the number of common shares issuable to holders of outstanding LP units.

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**RISK FACTORS**

**Risks Related to This Offering and the Purchase of Shares**

*The price of the Shares may be higher than the NASDAQ price.* The \$10.10 price is higher than the price paid by most of the current holders of our Shares. The \$10.10 price may be higher than the price at which our Shares trade on the NASDAQ National Market. As a result, before buying Shares pursuant to this offer, you should check to determine whether you might be able to buy the same number of Shares on the NASDAQ National Market for a lower price. See also *Determination of Offering Price* on page S-19 of this prospectus supplement.

*The price of the Shares exceeds the book value of the Shares.* The book value of our Shares is substantially less than the \$10.10 price. As of January 31, 2004, the book value of the 41,026,126 Shares then outstanding was \$6.10 per share. Assuming all of the Shares registered under this offering are sold, the estimated resulting book value will be \$6.20 per share. Thus, a purchasing shareholder paying \$10.10 per share will incur an immediate book value dilution of \$3.90 per share.

*Our inability to complete this offering would adversely affect our operating results.* This offering is being conducted on a *best efforts* basis. As such, we can give no assurance that there will be any demand for our securities, or that we will complete the offering in a timely fashion or at all. If we are unable to complete the offering, we would be unable to invest in real estate investment opportunities and our results would be negatively affected.

*Our inability to invest the proceeds of this offering in a timely fashion would adversely affect our operating results.* The proceeds of this offering are targeted toward investment in income producing real estate. If real estate investment opportunities do not arise, we will invest the proceeds of this offering into short-term income producing securities or money market funds, either of which would result in returns significantly below our expectations. This would lower our net income and funds from operations or FFO per share.

*We may issue shares of beneficial interest with rights and preferences that are superior to the rights and preferences of the Shares.* Without the approval of the holders of our Shares, our Board of Trustees may establish more than one class or series of our shares of beneficial interest and such class or series may have rights and preferences that are superior to the rights and preferences of the Shares. Any such class or series of preferred shares of beneficial interest may contain dividend rights, conversion rights, voting rights, terms of redemption, redemption prices, liquidation preferences or other rights and preferences that are superior to the rights of the holders of our Shares. We are currently considering, and our Board has approved, an offering of preferred shares of beneficial interest having rights and preferences that are superior to the Shares. Such offering will only occur if and when, among other things, the market conditions for an offering of preferred shares of beneficial interest are such that the dividend rate established in respect of the preferred shares of beneficial interest will be acceptable to us and our Board.

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

Operating results below expectations that cannot support the current distribution payment;

Unanticipated cash requirements; or

Concluding that the payment of distributions would cause us to breach the terms of certain agreements or contracts, such as financial ratio covenants.

*Low trading volume on the NASDAQ National Market may prevent the timely resale of Shares.* No assurance can be given that a purchaser of Shares in this offering will be able to resell such Shares when desired. Our Shares are currently traded on the NASDAQ National Market. The average daily trading volume for the period of May 1, 2002, through April 30, 2003, was 42,878 Shares and the average monthly trading volume for the period of May 2002 through April 2003 was 900,434 Shares. As a result of this trading volume, an owner of our Shares may encounter difficulty in selling such Shares in a timely manner and may incur a substantial loss.

### **Risks Related to Our Properties and Business**

*Our increasing ownership of commercial properties subjects us to different risks than our traditional base of multi-family residential properties.* Historically, the assets in our investment portfolio consisted predominantly of multi-family residential properties. More recently, our investment activities have caused this balance to shift so that the percentage of commercial properties held in our portfolio has increased significantly. Within the past 21 months, approximately 84% of our property acquisitions, on a total asset value basis, have been commercial properties, due to the greater availability of these properties on terms that meet our financial and strategic objectives.

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Based on total asset value, commercial properties now comprise a majority of our real estate assets, with the majority of our commercial properties being located in the Minneapolis, Minnesota area. Based on current market conditions, we anticipate that the percentage of commercial properties that we may acquire will continue to significantly exceed the number of multi-family residential properties that we may acquire during the next 12 months.

Our historical experience in acquiring and operating multi-family residential properties may not be directly applicable to the acquisition and operation of commercial properties. Commercial properties involve different risks than multi-family residential properties, including:

direct exposure to business and economic downturns;

exposure to tenant lease terminations or bankruptcies; and

competition from real estate investors with greater experience in developing and owning commercial properties.

Our earnings may be negatively affected if we are not successful in our acquisition and operation of commercial properties.

*Our geographic concentration in North Dakota and Minnesota may result in losses.* For the fiscal year ended April 30, 2003, and the nine month period ended January 31, 2004, we received approximately 82% and 81%, respectively, of our commercial gross revenue from commercial properties in Minnesota and approximately 10% and 9%, respectively, of our commercial gross revenue from commercial properties in North Dakota. For those same periods, we received approximately 17% and 19%, respectively, of our multi-family residential gross revenue from multi-family residential properties in Minnesota and 30% and 29%, respectively, of our apartment gross revenue from multi-family properties in North Dakota. As of January 31, 2004, Minnesota accounted for approximately 77% of our commercial real estate portfolio and 21% of our multi-family residential real estate portfolio, as determined by total asset value, while North Dakota accounted for approximately 9% of our commercial real estate portfolio and 26% of our multi-family residential real estate portfolio.

As a result of this concentration, we are subject to substantially greater risk than if our investments were more geographically dispersed. Specifically, we are more significantly exposed to the effects of economic and real estate conditions in those particular markets, such as building by competitors, local vacancy and rental rates and general levels of employment and economic activity.

The economic climate in Minnesota is highly dependent on the service, manufacturing and high technology industries. The North Dakota economy is dependent on the agricultural, government, business and personal services and wholesale and retail industries. Economic weakening, or lack of recovery from the recent weakness, in any of these industries may adversely affect the performance of our real estate portfolio by decreasing demand for rental space.

Approximately 68% of our assets in North Dakota, based on total asset value, are multi-family residential properties, which are dependent on a stable or growing population. During the past ten years, North Dakota's population and total personal income have grown at slower rates than surrounding states and the nation as a whole. If this trend continues, we may experience difficulty in renting our properties at acceptable rates, which may result in a decrease in our net income and adversely affect our ability to make distributions to the holders of our shares of beneficial interest.

*Increasing physical and economic vacancy rates and declining rental rates will negatively impact earnings.* In the twelve months subsequent to April 30, 2004, leases covering approximately 4% of our annualized base rents will expire. At January 31, 2004, the economic occupancy of our total commercial square footage, on a stabilized property

basis, was approximately 94%. We define economic occupancy as total possible revenue less vacancy loss as a percentage of total possible revenue. Total possible revenue is determined by valuing occupied units or square footage at contract rates, and vacant units or square footage at market rates. If we are unable to rent or sell

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those properties that are vacant or affected by expiring leases, properties producing approximately 17% of our total commercial annualized base rents will be vacant within the next 12 months. Even greater vacancies will be created to the extent that a number of tenants, or any one significant tenant, file for bankruptcy protection and reject our leases. At January 31, 2004, the economic occupancy of our multi-family residential properties, on a stabilized property basis, was approximately 91%. Multi-family residential vacancies could increase from current levels due to general economic conditions, local economic or competitive conditions, the trend toward home ownership facilitated by low interest rates, unsatisfactory property management, the physical condition of our properties or other factors. Increased vacancies in both our commercial and multi-family residential properties will negatively impact our earnings, will cause a decline in the value of our real estate portfolio and may adversely affect our ability to make distributions to the holders of our shares of beneficial interest.

Economic occupancy levels for our stabilized commercial and multi-family residential properties have decreased over the past twelve months. Multi-family property economic occupancy rates, on a stabilized property basis, decreased to 91% from 92% for the nine months ended January 31, 2004 and 2003, respectively. Commercial property economic occupancy rates, on a stabilized property basis, decreased to 94% from 97% for the nine months ended January 31, 2004 and 2003, respectively. The decrease in economic occupancy rates of our multi-family residential properties does not reflect the concessions, such as free rent, that have been granted to attract new tenants to our multi-family residential properties. Concessions, on a multi-family residential stabilized property basis, were \$1.8 million and \$0.9 million for the nine months ended January 31, 2004 and 2003, respectively, an increase of 96%.

Stabilized properties are those properties that we owned for the entirety of both periods being compared, and include properties that were redeveloped or expanded during the period being compared. Properties purchased or sold during the periods being compared are excluded from our stabilized property analysis.

*Inability to manage our rapid growth effectively may adversely affect our operating results.* Our total assets have increased from \$570.3 million at April 30, 2001, to \$993.9 million at January 31, 2004, principally through the acquisition of additional real estate properties. Subject to our continued ability to raise equity capital and issue LP units of IRET Properties, we anticipate acquiring approximately \$100 million to \$200 million of real estate assets on an annual basis. Effective management of this level of growth will present challenges, including:

the need to expand our management team and staff;

the need to enhance internal operating systems and controls;

increased reliance on outside advisors and property managers; and

the ability to consistently achieve targeted returns.

If we are unable to effectively manage our growth, our operating results will be adversely affected.

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

*An inability to continue to make accretive property acquisitions may adversely affect our ability to increase our operating income.* From our fiscal year ended April 30, 2001, to our fiscal year ended April 30, 2003, we increased our operating income from \$10.8 million to \$15.9 million. Most of this growth was attributable to the acquisition of

additional real estate properties. However, on a per share and per share and unit basis for the same period, our net income has stayed the same, after an initial increase from April 31, 2001 to April 30, 2002. Our net income per share and per share and unit was \$0.38 as of April 30, 2003, compared to \$0.42 and \$0.38, respectively, as of April 30, 2002 and

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2001. If we are unable to continue to make real estate acquisitions on terms that meet our financial and strategic objectives, whether due to market conditions, a changed competitive environment or unavailability of capital, our ability to increase our operating income may be materially and adversely affected.

*High leverage on our overall portfolio may result in losses.* As of January 31, 2004, our ratio of total indebtedness to total net assets was approximately 179%. As of April 30, 2003, 2002 and 2001, our percentage of total indebtedness to total net assets was approximately 186%, 211% and 215%, respectively. Under our Second Restated Trustees Regulations (Bylaws) we may increase our total indebtedness up to 300% of net assets before depreciation in the aggregate, or by an additional approximately \$433.0 million. There is no limitation on the increase that may be permitted if approved by a majority of the independent members of our board of trustees and disclosed to the holders of our shares of beneficial interest in the next quarterly report, along with justification for any excess.

This amount of leverage may expose us to cash flow problems if rental income decreases. Under those circumstances, in order to pay our debt obligations we might be required to sell properties at a loss or be unable to make distributions to the holders of our shares of beneficial interest. A failure to pay amounts due may result in a default on our obligations and the loss of the property through foreclosure.

*Our inability to renew, repay or refinance our debt may result in losses.* We are subject to the normal risks associated with debt financing, including the risk that:

our cash flow will be insufficient to meet required payments of principal and interest;

we will not be able to renew, refinance or repay our indebtedness when due; and

the terms of any renewal or refinancing will be less favorable than the terms of our current indebtedness.

If we are unable to refinance our indebtedness on acceptable terms, or at all, we may be forced to dispose of one or more of the properties on disadvantageous terms, which may result in losses to us. These losses could have a material adverse effect on us, our ability to make distributions to the holders of our shares of beneficial interest and our ability to pay amounts due on our debt. Furthermore, if a property is mortgaged to secure payment of indebtedness and we are unable to meet mortgage payments, the mortgagee could foreclose upon the property, appoint a receiver and receive an assignment of rents and leases or pursue other remedies, all with a consequent loss of our revenues and asset value. Foreclosures could also create taxable income without accompanying cash proceeds, thereby hindering our ability to meet the REIT distribution requirements of the Internal Revenue Code.

The principal balance of our indebtedness in mortgage loans secured by individual commercial and residential properties totaled \$610.8 million as of January 31, 2004. Of the outstanding mortgages, both fixed and variable, \$21.8 million in principal amount will come due during fiscal year 2004, \$18.7 million in principal amount will come due during fiscal year 2005 and the remaining balance will come due in later fiscal years.

*The cost of our indebtedness may increase.* We have incurred, and we expect to continue to incur, indebtedness that bears interest at a variable rate. In addition, portions of our fixed-rate indebtedness incurred for past property acquisitions will come due on a periodic basis. For example, in each of our fiscal years ending April 30, 2005, 2006 and 2007, approximately \$15 to \$17 million of our fixed-rate debt will come due. Accordingly, increases in interest rates will increase our interest costs, which could have a material adverse effect on us, our ability to make distributions to the holders of our shares of beneficial interest and our ability to pay amounts due on our debt. As of January 31, 2004, \$39.7 million, or approximately 7% of the principal amount of our total mortgage indebtedness was subject to variable interest rate agreements. The interest rates on our variable rate mortgages range from approximately 4% to approximately 8%. An increase of one percent in our variable interest rate would collectively increase our interest payments by \$397,000 annually.

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



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

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

*We have significant investments in medical office properties and adverse trends in healthcare provider operations may negatively affect our lease revenues from these properties.* We have acquired a significant number of specialty medical properties and may acquire more in the future. As of January 31, 2004, our real estate portfolio consisted of eight medical office properties, having a total asset value of \$96.5 million, or approximately 9% of the total asset value of our entire real estate portfolio. The healthcare industry is currently experiencing changes in the demand for, and methods of delivery of, healthcare services; changes in third-party reimbursement policies; significant unused capacity in certain areas, which has created substantial competition for patients among healthcare providers in those areas; continuing pressure by private and governmental payors to reduce payments to providers of services; and increased scrutiny of billing, referral and other practices by federal and state authorities. Sources of revenue for our medical property tenants may include the federal Medicare program, state Medicaid programs, private insurance carriers and health maintenance organizations, among others. Efforts by such payors to reduce healthcare costs will likely continue, which may result in reductions or slower growth in reimbursement for certain services provided by some of our tenants. These factors may adversely affect the economic performance of some or all of our medical services tenants and, in turn, our lease revenues. In addition, if we or our tenants terminate the leases for these properties, or our tenants lose their regulatory authority to operate such properties, we may not be able to locate suitable replacement tenants to lease the properties for their specialized uses. Alternatively, we may be required to spend substantial amounts to adapt the properties to other uses. Any loss of revenues and/or additional capital expenditures occurring as a result could hinder our ability to make distributions to the holders of our shares of beneficial interest

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

*Complying with laws benefiting disabled persons may affect our costs and investment strategies.* Federal, state and local laws and regulations designed to improve disabled persons' access to and use of buildings, including the Americans with Disabilities Act, may require modifications to, or restrict renovations of, existing buildings. Additionally, these laws and regulations may require that structural features be added to buildings under construction. Any legislation or regulations that may be adopted in the future may impose further burdens or restrictions on us with

respect to improved access to, and use of these buildings by, disabled persons. The costs of complying with these laws and regulations may be substantial and limits or restrictions on construction, or the completion of required renovations, may limit the implementation of our investment strategy, or reduce overall returns on our investments. This could have an adverse effect on us, our ability to make distributions to the holders of our shares of beneficial interest and our ability to pay amounts due on our debt.

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

It is currently our policy to obtain a Phase I environmental study on each property that we seek to acquire. If the Phase I indicates any possible environmental problems, it is our policy to order a Phase II study, which involves testing the soil and ground water for actual hazardous substances. However, Phase I and Phase II environmental studies, or any other environmental studies undertaken with respect to any of our current or future properties, may not reveal the full extent of potential environmental liabilities. We currently do not carry insurance for environmental liabilities.

*We may be unable to retain or attract qualified management.* We are dependent upon our senior officers for essentially all aspects of our business operations. Our senior officers have experience in the specialized business segments in which we operate and the loss of them would likely have a material adverse effect on our operations. We do not have employment contracts with any of our senior officers. As a result, any senior officer may terminate his or her relationship with us at any time, without providing advance notice. The location of our corporate headquarters in Minot, North Dakota, may make it more difficult and expensive to attract, relocate and retain current and future officers and employees.

## **Risks Related to Our Structure and Organization**

*We may incur tax liabilities as a consequence of failing to qualify as a REIT.* Although our management believes that we are organized and have operated and are operating in such a manner to qualify as a real estate investment trust, as that term is defined under the Internal Revenue Code, no assurance can be given that we have in fact operated, or will be able to continue to operate, in a manner to qualify or remain so qualified. Qualification as a REIT involves the application of highly technical and complex Internal Revenue Code provisions for which there are only limited judicial or administrative interpretations, and further involves the determination of factual matters and circumstances not entirely within our control. See "Certain Tax Considerations" in the accompanying prospectus. For example, in order to qualify as a REIT, at least 95% of our gross income in any year must be derived from qualifying sources, and we must make distributions to the holders of our shares of beneficial interest aggregating annually at least 90% of our REIT taxable income (excluding net capital gains). Thus, to the extent revenues from non-qualifying sources, such as income from third-party management, represents more than five percent of our gross income in any taxable year, we will not satisfy the 95% income test and may fail to qualify as a REIT, unless certain relief provisions contained in the Internal Revenue Code apply. Even if relief provisions apply, however, a tax would be imposed with respect to excess net income. Additionally, if IRET Properties, our operating partnership, or one or more of our subsidiaries is determined to be taxable as a corporation, we may fail to qualify as a REIT. Either our failure to qualify as a REIT, for any reason, or the imposition of taxes on excess net income from non-qualifying sources, could have a material

adverse effect on us, our ability to make distributions to the holders of our shares of beneficial interest and our ability to pay amounts due on our debt. Furthermore, new legislation, regulations, administrative interpretations or court decisions could change the tax laws with respect to our qualification as a REIT or the federal income tax consequences of our qualification.

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If we failed to qualify as a REIT, we would be subject to federal income tax (including any applicable alternative minimum tax) on our taxable income at corporate rates, which would likely have a material adverse effect on us, our ability to make distributions to the holders of our shares of beneficial interest and our ability to pay amounts due on our debt. In addition, unless entitled to relief under applicable statutory provisions, we would also be disqualified from treatment as a REIT for the four taxable years following the year during which we lost our qualification. This treatment would reduce funds available for investment or distributions to the holders of our shares of beneficial interest because of the additional tax liability to us for the year or years involved. In addition, we would no longer be required to make distributions to holders of our shares of beneficial interest. To the extent that distributions to the holders of our shares of beneficial interest would have been made in anticipation of qualifying as a REIT, we might be required to borrow funds or to liquidate certain investments to pay the applicable tax.

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

*Our board of trustees may make changes to our major policies without approval of the holders of our shares of beneficial interest.* Our major policies, including policies relating to development, acquisitions, financing, growth, debt capitalization and distributions, are determined by our board of trustees. Our board of trustees may amend or revoke those policies, and other policies, without advance notice to, or the approval of, the holders of our shares of beneficial interest.

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**BUSINESS**

**IRET**

We are a self-advised equity REIT organized under the laws of North Dakota. Our business consists of owning and operating income-producing real properties. Our investments include multi-family residential properties and commercial properties. These properties are located primarily in the upper Midwest states of Minnesota and North Dakota. The charts below show the geographic distribution of our properties and their classification by type, in both cases measured on the basis of total asset value, which is the amount we have invested in our properties (original investment plus improvements, if any).

As of January 31, 2004, our real estate portfolio consisted of:

68 multi-family residential properties, containing 8,873 apartment units and having a total asset value less accumulated depreciation of \$381.0 million; and

127 commercial properties, containing 6.8 million square feet of leasable space and having a total asset value less accumulated depreciation of \$552.0 million.

Our multi-family residential properties include apartment buildings, complexes and communities. Our commercial properties include office buildings, retail stores and centers, industrial facilities and health care properties, such as clinics and assisted living centers. These commercial properties are typically leased to tenants under long term lease arrangements, with no single tenant currently accounting for more than approximately 10% of our total annual commercial rental revenues. At January 31, 2004, the economic occupancy rates for our stabilized multi-family residential and commercial properties were approximately 91% and 94%, respectively. We define economic occupancy as total possible revenue less vacancy loss as a percentage of total possible revenue. Total possible revenue is determined by valuing occupied units or square footage at contract rates, and vacant units or square footage at market rates.

We operate in a manner intended to enable us to qualify as a REIT under the Internal Revenue Code. We own our assets and conduct our day-to-day business operations through an operating partnership, IRET Properties, a North Dakota Limited Partnership, of which IRET, Inc., a North Dakota corporation and our wholly-owned subsidiary, is the sole general partner.

**Investment Strategy**

We employ an investment strategy focused on growing assets in desired geographical markets, achieving diversification by property type, adhering to targeted returns in acquiring properties, and regularly increasing funds from operations and distribution rates on our shares of beneficial interest. We have increased our distributions per share every year since our inception 34 years ago and every quarter since 1988.

We attempt to concentrate our multi-family residential properties in communities with populations of approximately 50,000 to 500,000 and we attempt to concentrate our commercial properties in metropolitan areas with populations of approximately 100,000 to 3.0 million. We focus most of our investment activity in markets in the upper Midwest, due to our greater familiarity with these markets, our existing market presence and our belief that these markets attract less competition from other leading REITs and institutional investors. Approximately 64% of our commercial properties, by total asset value, are located in the Minneapolis/St. Paul metropolitan area.

We continually receive, evaluate and identify opportunities for the acquisition of commercial and multi-family residential properties, particularly in the states in which we currently own properties. These investment opportunities are sourced through various channels, including real estate brokers, property owners, property management firms and our own business development efforts. In evaluating commercial properties, we consider factors that include market size, economic and market rental conditions, property type, property quality, existing occupancy and lease rates, tenant makeup and quality, lease rollover risk and current and prospective cash flow levels. In evaluating multi-family residential properties, we consider factors that include market size and growth characteristics, demographic considerations, apartment rental conditions and trends, market rent and occupancy levels, property quality, operating expense and maintenance considerations, property occupancy rates and current and prospective cash flow levels. Upon identifying properties that meet our investment criteria, we conduct financial analyses, perform property inspections, identify borrowing sources and terms and submit or negotiate acquisition proposals on terms that allow us, under reasonable assumptions, to meet our targeted investment returns.

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Typically, we seek to acquire existing, well-maintained properties that have a strong tenant base and lease or rental revenues and terms that immediately support our return on investment objectives. Due to varying market conditions over time, this can lead to a greater concentration of investment activity in certain property types during particular market cycles. For instance, during the past 21 months, approximately 84% of our property acquisitions, based on total asset value, have been commercial properties, due to the greater availability of these properties on terms that meet our return on investment objectives. As market conditions evolve, however, this trend may be reversed and we may again purchase a greater percentage of multi-family residential properties.

We generally use available cash or short-term floating rate debt to acquire real estate. We then replace the cash or short-term floating rate debt with fixed-rate secured debt, typically in an amount equal to 65% to 75% of the acquisition cost. In appropriate circumstances, we also may acquire one or more properties in exchange for our shares of beneficial interest or LP units of IRET Properties, which are convertible into our common shares on a one-to-one basis or, at our option, cash, after the expiration of a minimum one-year holding period. Subject to our continued ability to raise equity capital and issue LP units of IRET Properties, we anticipate acquiring \$100 million to \$200 million of real estate assets on an annual basis.

## **Operations**

We conduct our operations from offices in Minot, North Dakota, and Minneapolis, Minnesota. In Minot, our 26 person staff is engaged in activities that include management and planning, financial analysis and accounting, marketing, property sourcing and evaluation, legal and compliance, information management and investor relations. In Minneapolis, our eight-person staff is primarily engaged in sourcing, evaluating and managing commercial properties in the Minneapolis/St. Paul metropolitan area.

Except for certain commercial properties managed by our Minneapolis office, the day-to-day management of our real estate assets is handled by third-party professional management companies. These management activities include the negotiation of potential leases, the preparation of proposed operating budgets, the collection and remittance of lease or rental payments and the supervision of routine maintenance and capital improvements that have been authorized by us. We believe that the use of locally-based management companies allows us to enjoy the benefits of local knowledge of the applicable real estate market, while avoiding the cost and difficulty associated with maintaining management personnel in every location in which we operate. All decisions relating to the purchase or sale of property, insurance coverage, capital improvements, approval of commercial leases, annual operating budgets and major renovations are made exclusively by our employees and then implemented by the third-party management companies. As of January 31, 2004, we had property management contracts with 23 companies located in 14 states. Generally, our management contracts provide for compensation ranging from 2.5% to 5% of gross rent collections and allow us to terminate the contracts within 60 days or upon failure of the manager to meet financial performance goals.

We believe that our administrative, property management and corporate overhead expenses as a percentage of our revenues are among the lowest of all public REITs. We believe that this serves the interests of the holders of our shares of beneficial interest by moderating the impact of cyclical downturns and enhancing the funds available for distribution.

## **Properties**

The tables set forth below present the revenues and gross profit from our multi-family residential properties and our commercial properties. Historically, the majority of our real estate investments has consisted of multi-family residential properties. More recently, our investment activities have caused this balance to shift so that the percentage of commercial properties held in our portfolio has increased significantly and the revenues and gross profit from commercial properties now exceed those from multi-family residential properties. Based upon current market



conditions, we anticipate that the revenues and gross profit from our commercial properties will continue to increase relative to our multi-family residential properties during the next twelve months.

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**Table of Contents****Commercial and Multi-Family Residential Properties by State**

The following table presents, as of January 31, 2004, an analysis by state of each of the two categories of real estate owned by us multi-family residential and commercial:

<b>Total Real Estate Investment by Total Asset Value (in thousands)</b>				
<b>State</b>	<b>Multi-Family</b>			<b>% of Total</b>
	<b>Residential</b>	<b>Commercial</b>	<b>Total</b>	
Minnesota	\$ 91,684	\$451,728	\$ 543,412	53.0%
North Dakota	112,589	53,791	166,380	16.2%
Montana	38,666	7,867	46,534	4.5%
Colorado	40,586		40,586	4.0%
South Dakota	31,667	7,047	38,714	3.8%
Texas	38,283		38,283	3.7%
Nebraska	22,347	14,724	37,071	3.6%
Kansas	35,095		35,095	3.4%
All Other States	28,498	51,451	79,950	7.8%
<b>Total</b>	<b>\$439,416</b>	<b>\$586,609</b>	<b>\$1,026,025</b>	<b>100.0%</b>

**Comparison of Results from Commercial and Residential Properties**

The following table presents an analysis of the contribution to revenues of each of the two categories of real estate owned by us multi-family residential and commercial:

**Fiscal Years Ended April 30**

	<b>2003</b>	<b>%</b>	<b>2002</b>	<b>%</b>	<b>2001</b>	<b>%</b>
<b>Real Estate Investments</b> (Net of Accumulated Depreciation) (in thousands)						
Commercial	\$495,778	59%	\$333,093	49%	\$218,262	40%
Residential	348,364	41%	348,301	51%	329,281	60%
<b>Total</b>	<b>\$844,142</b>	<b>100%</b>	<b>\$681,394</b>	<b>100%</b>	<b>\$547,543</b>	<b>100%</b>
<b>Gross Real Estate Rental Revenues</b> (in thousands)						
Commercial	\$ 59,166	50%	\$ 32,298	36%	\$ 18,672	25%
Residential	59,735	50%	58,429	64%	55,244	75%

<b>Total</b>	<b>\$ 118,901</b>	<b>100%</b>	<b>\$ 90,728</b>	<b>100%</b>	<b>\$ 73,916</b>	<b>100%</b>
<b>Expenses</b> <i>before Depreciation</i>						
(in thousands)						
Commercial	\$ 36,645	46%	\$ 17,705	30%	\$ 9,851	20%
Residential	43,252	54%	40,562	70%	39,100	80%
	<u>          </u>	<u>      </u>	<u>          </u>	<u>      </u>	<u>          </u>	<u>      </u>
<b>Total</b>	<b>\$ 79,897</b>	<b>100%</b>	<b>\$ 58,267</b>	<b>100%</b>	<b>\$ 48,951</b>	<b>100%</b>
<b>Segment Gross Profit</b> <i>before depreciation</i>						
(in thousands)						
Commercial	\$ 22,521	58%	\$ 14,593	45%	\$ 8,821	35%
Residential	16,483	42%	17,868	55%	16,144	65%
	<u>          </u>	<u>      </u>	<u>          </u>	<u>      </u>	<u>          </u>	<u>      </u>
<b>Total</b>	<b>\$ 39,004</b>	<b>100%</b>	<b>\$ 32,461</b>	<b>100%</b>	<b>\$ 24,965</b>	<b>100%</b>

### DILUTION

The book value of our Shares is substantially less than the \$10.10 offering price. As of January 31, 2004, the book value of the 41,026,126 Shares outstanding was \$6.10 per share. Assuming all of the Shares registered under this offering are sold, the estimated resulting book value will be \$6.20 per share. Thus, an investor paying \$10.10 per share under this offering will incur an immediate book value dilution of \$3.90 per share.

### PRICE RANGE OF SHARES AND DISTRIBUTION HISTORY

The following sets forth the high and low sale prices for our Shares as reported by the NASDAQ SmallCap Market for the period of May 1, 2000, through April 8, 2002, and as reported by the NASDAQ National Market for the period of April 9, 2002, through January 31, 2004, and the distributions we paid with respect to each period.

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	<u>High</u>	<u>Low</u>	<u>Distribution per Share</u>
<b>Fiscal 2002</b>			
First Quarter ending July 31, 2001	\$10.49	\$8.25	\$0.1450
Second Quarter ending October 31, 2001	9.43	8.80	0.1475
Third Quarter ending January 31, 2002	10.00	9.00	0.1500
Fourth Quarter ending April 30, 2002	10.45	9.51	0.1520
<b>Fiscal 2003</b>			
First Quarter ending July 31, 2002	\$11.90	\$8.55	\$0.1540
Second Quarter ending October 31, 2002	11.00	9.05	0.1560
Third Quarter ending January 31, 2003	11.00	9.66	0.1570
Fourth Quarter ending April 30, 2003	10.00	8.98	0.1580
<b>Fiscal 2004</b>			
First Quarter ending July 31, 2003	\$10.81	\$9.28	\$0.1585
Second Quarter ending October 31, 2003	10.48	9.69	0.1590
Third Quarter ending January 31, 2004	10.70	9.88	0.1595

We have paid quarterly distributions since July 1, 1971. Distributions are generally paid in January, April, July and October of each year. Our last quarterly distribution of \$.1595 per Share was paid on January 26, 2004. On March 1, 2004 our Board declared a regular quarterly distribution of \$.1600 per Share payable on April 1, 2004. The record date and pay date for such regular quarterly distribution will precede the closing of this offering and, as such, persons purchasing Shares pursuant to this prospectus will not be entitled to receive such distribution.

**Distribution Reinvestment Plan.** We offer holders of our Shares the option of reinvesting all, or a portion of, their distributions in additional Shares through our distribution reinvestment plan. Our distribution reinvestment plan provides that we will repurchase Shares on the open market for the purpose of fulfilling our obligations under the plan, or, if a sufficient number of our Shares is not available on the open market, we may issue additional Shares. In order to participate in our distribution reinvestment plan, a shareholder must affirmatively elect to do so by notifying the Transfer Agent and Registrar. We currently act as our own Transfer Agent and Registrar and can be contacted at 12 South Main, Minot, ND, 58701. Our telephone number is (701) 837-4738. A shareholder may terminate participation in the plan at any time by notifying the Transfer Agent. Distributions may be taxable to shareholders whether received in cash or in Shares.

### DETERMINATION OF OFFERING PRICE

In setting the price of the Shares available for sale under this offering at \$10.10, we considered the trading price of the Shares on the NASDAQ National Market from February 28, 2003, to February 29, 2004. From February 28, 2003, to February 29, 2004, the average high was \$10.131, the average low was \$9.916 and the average closing price was \$10.036. Based on the above, we determined that the offering price should be set at \$10.10 per share.

### EFFECTIVE DATE OF OFFERING

The offering of Shares pursuant to this prospectus will begin on the date of this prospectus supplement, which is set forth on the front cover, and will end when all of the Shares have been sold or when we elect to terminate the offering, whichever occurs first.

**USE OF PROCEEDS**

We estimate that the net proceeds to us from the sale of the shares in this offering will be approximately \$11,439,000. Net proceeds is what we expect to receive after paying all sales commissions and expenses in connection with this offering, which we estimate will total

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approximately \$681,000. We currently plan to use the proceeds for the acquisition, development, renovation, expansion or improvement of income-producing real estate properties. Pending such use, the net proceeds may be invested in short-term income-producing investments, such as United States Treasury Bonds with terms of six months or less.

**DESCRIPTION OF OUR SHARES**

**General.** Our Third Restated Declaration of Trust authorizes the issuance of an unlimited number of our shares of beneficial interest. As of January 31, 2004, (i) there were 41,026,126 of our Shares outstanding and 11,382,713 of our Shares to be issued upon conversion of previously issued limited partnership units, (ii) we had no classes or series of shares of beneficial interest other than our Shares, and (iii) there were no warrants, options or other contractual arrangements, other than the limited partnership units, requiring the issuance of our Shares.

The description of our Shares set forth below is in all respects subject to, and qualified in its entirety by reference to, the applicable provisions of our Third Restated Declaration of Trust, including any applicable amendments, and our Second Restated Trustees Regulations (Bylaws), including any applicable amendments. All of our Shares offered by this prospectus supplement and the accompanying prospectus will be duly authorized, fully paid and nonassessable.

**Voting Rights.** Subject to the provisions of our Third Restated Declaration of Trust regarding the restriction on the transfer of our Shares, our Shares have non-cumulative voting rights at the rate of one vote per Share on all matters submitted to the shareholders, including the election of members of our Board of Trustees.

Our Third Restated Declaration of Trust generally provides that whenever any action is to be taken by the holders of our Shares, including the amendment of our Third Restated Declaration of Trust if such amendment is previously approved by our Board of Trustees, such action will be authorized by a majority of the holders of our Shares present in person or by proxy at a meeting at which a quorum is present, except as otherwise required by law, our Third Restated Declaration of Trust or our Second Restated Trustees Regulations (Bylaws). Our Third Restated Declaration of Trust further provides the following:

- (i) that the following actions will be authorized by the affirmative vote of the holders of our Shares holding Shares possessing a majority of the voting power of our Shares then outstanding and entitled to vote on such action:

our termination;

our merger with or into another entity;

our consolidation with one or more other entities into a new entity;

the disposition of all or substantially all of our assets; and

the amendment of the Third Restated Declaration of Trust, if such amendment has not been previously approved by our Board of Trustees.

- (ii) that a member of our Board of Trustees may be removed with or without cause by the holders of our Shares by the affirmative vote of not less than two-thirds of our Shares then outstanding and entitled to vote on such matter.

Our Third Restated Declaration of Trust also permits our Board of Trustees, by a two-thirds vote and without any action by the holders of our Shares, to amend our Third Restated Declaration of Trust from time to time as necessary

to enable us to continue to qualify as a real estate investment trust under the Internal Revenue Code.

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**Dividend, Distribution, Liquidation and Other Rights.** Subject to the preferential rights of any preferred shares that we may issue in the future and the provisions of the Third Restated Declaration of Trust regarding the restriction on the transfer of our Shares, holders of our Shares are entitled to receive dividends on their Shares if, as and when authorized and declared by the Board of Trustees and to share ratably in our assets legally available for distribution to our shareholders in the event of our liquidation, dissolution or winding up after payment of, or adequate provision for, all known debts and liabilities. Our Shares have equal dividend, distribution, liquidation and other rights. Our Shares have no preference, conversion, exchange, sinking fund or redemption rights.

**Ownership and Transfer Restrictions.** Our Shares are fully transferable and alienable subject only to certain restrictions set forth in our Third Restated Declaration of Trust that are intended to help preserve our status as a REIT for federal income tax purposes. Then, more specifically, our Third Restated Declaration of Trust provides that any transaction, other than a transaction entered into through the NASDAQ National Market or other similar exchange, that would result in (i) a person owning in excess of the ownership limit, which as of the date of this prospectus is 9.8%, in number or value, of our outstanding shares of beneficial interest, (ii) less than 100 people owning our shares of beneficial interest, (iii) us being closely held within the meaning of Section 856(h) of the Internal Revenue Code, (iv) 50% or more of the fair market value of our shares of beneficial interest being held by persons other than United States persons, as defined in Section 7701(a)(30) of the Internal Revenue Code, or (v) our disqualification as a REIT under Section 856 of the Internal Revenue Code, will be void ab initio. If any such transaction is not void ab initio, then the shares of beneficial interest in excess of the ownership limit, that cause us to be closely held, that result in 50% or more of the fair market value of our shares of beneficial interest being held by persons other than United States persons or that result in our disqualification as a REIT, would automatically be exchanged for an equal number of excess shares, and these excess shares will be transferred to an excess share trustee for the exclusive benefit of the charitable beneficiaries named by our Board of Trustees.

In such event, any dividends on excess shares will be paid to the excess share trust for the benefit of the charitable beneficiaries. The excess share trustee will be entitled to vote the excess shares, if applicable, on any matter. The excess share trustee may only transfer the excess shares held in the excess share trust as follows: (i) at the direction of our Board of Trustees to a person whose ownership of our shares of beneficial interest would not violate the ownership limit; (ii) if shares of beneficial interest were transferred to the excess share trustee due to a transaction or event that would have caused a violation of the ownership limit or would have caused us to be closely held, the excess share trustee will transfer the excess shares to the person who makes the highest offer for the excess shares, pays the purchase price and whose ownership will not violate the ownership limit or cause us to be closely held; and (iii) if excess shares were transferred to the excess share trustee due to a transaction or event that would have caused persons other than United States persons to own more than 50% of the value of our shares of beneficial interest, the excess share trustee will transfer the excess shares to the United States person who makes the highest offer for the excess shares, pays the purchase price and whose ownership will not violate the ownership limit or cause us to be closely held.

When the excess share trustee makes any transfer, the person whose shares were exchanged for excess shares will receive (i) the lesser of (A) the price paid by such person or, if such person did not give value for the securities, the market price of the securities on the day the securities were exchanged for excess shares, and (B) the price received by the excess share trust for securities, minus (ii) any dividends received by the person whose shares were exchanged for excess shares that such person was under an obligation to pay over to the excess share trustee but has not repaid at the time of the distribution of proceeds, and minus (iii) any compensation for or expense of the excess share trustee.

**Transfer Agent and Registrar.** We act as our own transfer agent and registrar with respect to our Shares.



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**PLAN OF DISTRIBUTION**

For the sole purpose of selling the Shares to be offered pursuant to this prospectus supplement, we have entered into security sales agreements with a number of broker-dealers who are members of the National Association of Securities Dealers, or NASD. Broker-dealers participating in this offering are considered statutory underwriters pursuant to Section 2a(11) of the Securities Act of 1933. None of the broker-dealers involved is required to take and pay for, or sell, a specific number of Shares. This offering will be conducted on a best efforts basis under which participating broker-dealers are required to take and pay for only those Shares that are actually sold to the public. The Shares available for sale to the public will only be available for purchase through broker-dealers who have signed a security sales agreement with us. The Shares offered will only be sold for cash payable in United States Dollars. There will be no other distribution or sales of Shares to the public, except through our distribution reinvestment plan, which is available only to our shareholders. See Price Range of Shares and Distribution History Distribution Reinvestment Plan on page S-18 of this prospectus supplement.

We anticipate that we will request that the following NASD registered broker-dealers use their best efforts to sell the Shares offered under this prospectus to the public:

Alerus Securities

We will pay a commission of five percent, or \$.505 per share, for any and all Shares sold by a participating broker-dealer. The total maximum commission that may be paid if all Shares are sold in this offering is \$606,000. No discounts, other compensation, commissions, finders fees or other compensation will be paid to any broker-dealer in this offering.

The material terms of the Security Sales Agreements are as follows:

Subject only to a minimum purchase of 100 Shares by any investor, no broker-dealer is required to sell a minimum number of Shares.

There may be limits on the number of Shares a particular broker-dealer may sell as a result of our allocation of Shares among the broker-dealers.

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No more than the total offering of 1,200,000 Shares may be sold.

Either party to a security sales agreement may terminate such agreement at anytime without penalty or further obligation.

Any full-time employee of a participating broker-dealer may purchase Shares for their own account at the offering price of \$10.10 per share. Any such Shares so acquired may not be sold, transferred, assigned, pledged or hypothecated by any person for a period of one year from the date of acquisition. No certificate may be issued until the one year holding period has expired.

No broker-dealer has a right to nominate or elect a member to our Board of Trustees.

We have agreed to indemnify the broker-dealers against certain liabilities, including certain liabilities under the Securities Act of 1933.

None of the broker-dealers intend to engage in any passive market making activities, stabilization or other transactions that otherwise may affect the price of the Shares offered or the price of our Shares on the NASDAQ National Market.

**LEGAL MATTERS**

The validity of the Shares offered hereby and the legal matters described under the caption Certain Tax Considerations in the accompanying prospectus will be passed upon for us by Pringle & Herigstad, P.C., Minot, North Dakota.

**EXPERTS**

The financial statements incorporated into this prospectus supplement and the accompanying prospectus by reference to our Annual Report on Form 10-K for the fiscal year ended April 30, 2003, have been included herein in reliance on the reports of Brady Martz & Associates, P.C., Minot, North Dakota, independent accountants, given on the authority of that firm as experts in accounting and auditing.

**SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS**

Certain statements included in this prospectus supplement, the accompanying prospectus and the documents incorporated into this prospectus supplement and the accompanying prospectus by reference are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements include statements about our intention to invest in properties that we believe will increase in income and value; our belief that the real estate markets in which we invest will continue to perform well; our belief that we have the liquidity and capital resources necessary to meet our known obligations and to make additional real estate acquisitions and capital improvements when appropriate to enhance long term growth; and other statements preceded by, followed by or otherwise including words such as believe, expect, intend, project, anticipate, potential, may, will, designed, estimate, should, continue and other similar terms. These statements indicate that we have used assumptions that are subject to a number of risks and uncertainties that could cause our actual results or performance to differ materially from those projected.

Although we believe that the expectations reflected in such forward-looking statements are based on reasonable assumptions, we can give no assurance that these expectations will prove to have been correct. Important factors that

could cause actual results to differ materially from the expectations reflected in our forward-looking statements include:

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the economic health of the markets in which we own and operate multi-family and commercial properties, in particular, the states of Minnesota and North Dakota, or other markets in which we may invest in the future;

the economic health of our commercial tenants;

market rental conditions, including occupancy levels and rental rates, for multi-family residential and commercial properties;

our ability to identify and secure additional multi-family residential and commercial properties that meet our criteria for investment;

the level and volatility of prevailing market interest rates and the pricing of our shares of beneficial interest;

financing risks, such as our inability to obtain debt or equity financing on favorable terms, or at all;

our ability to timely complete and lease properties under construction;

compliance with applicable laws, including those concerning the environment and access by persons with disabilities; and

the availability and cost of casualty insurance for losses caused by terrorist acts.

In light of these uncertainties, the events anticipated by our forward-looking statements might not occur and we caution you not to place undue reliance on any of our forward-looking statements. We undertake no obligation to update or revise our forward-looking statements, whether as a result of new information, future events or otherwise, and those statements speak only as of the date made. The foregoing review of factors that could cause our actual results to differ materially from those contemplated in any forward-looking statements should not be construed as exhaustive.

**WHERE YOU CAN FIND MORE INFORMATION**

We file annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission. You may read and copy any document we file at the Securities and Exchange Commission's public reference rooms at 450 Fifth Street, N.W., Washington, D.C., 20549, and in New York, New York and Chicago, Illinois. Please call the Securities and Exchange Commission at 1-800-SEC-0330 for further information on the public reference rooms. You also may obtain copies of the documents at prescribed rates by writing to the Public Reference Section of the Securities Exchange Commission at 450 Fifth Street, N.W., Room 1024, Washington, D.C., 20549. Our Securities and Exchange Commission filings are also available to the public at the Securities and Exchange Commission's web site at <http://www.sec.gov> and our web site at <http://www.irets.com>. Information on our website does not constitute part of this prospectus.

We have filed with the Securities and Exchange Commission a Registration Statement on Form S-3, of which this prospectus supplement and the accompanying prospectus is a part, under the Securities Act of 1933 with respect to the Shares. As permitted by the rules and regulations of the Securities and Exchange Commission, this prospectus supplement does not contain all the information you can find in the Registration Statement or the exhibits to the Registration Statement.

Statements contained in this prospectus supplement as to the contents of any contract or other document are not necessarily complete, and in each instance reference is made to the copy of such contract or other document filed as an exhibit to the Registration Statement, each such statement being qualified in all respects by such reference and the

exhibits and schedules thereto. For further information about us and our securities, you should refer to the Registration Statement and such exhibits and schedules, which may be obtained from the Securities and Exchange Commission at its principal office in Washington, D.C., upon payment of the fees prescribed by the Securities and Exchange Commission, and at the Securities and Exchange Commission's website.

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Information contained herein is subject to completion or amendment. A registration statement relating to these securities has been filed with the Securities and Exchange Commission. These securities may not be sold nor may offers to buy be accepted prior to the time the registration statement becomes effective. This prospectus shall not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any State in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such State.

Subject to Completion, Dated March 31, 2004

**Prospectus**

**Investors Real Estate Trust**

**\$150,000,000**

**Shares of Beneficial Interest**

**Preferred Shares of Beneficial Interest**

We may from time to time offer and sell: (i) our shares of beneficial interest, no par value, and (ii) in one or more classes or series, our preferred shares of beneficial interest, no par value, all with an aggregate public offering price of up to \$150,000,000, on terms to be determined at the time of the offering. In this prospectus, we refer to our shares of beneficial interest as our common shares, we refer to our preferred shares of beneficial interest as our preferred shares and we refer to our common shares and our preferred shares collectively as our securities. Our securities may be offered, separately or together, in amounts, at prices and on terms to be set forth in one or more supplements to this prospectus (each, a prospectus supplement). The aggregate public offering price and terms of the securities will be determined by market conditions at the time the securities are offered.

The specific terms of any securities we sell and the terms on which we are offering such securities will be set forth in a prospectus supplement. The specific terms may include limitations on direct or beneficial ownership and restrictions on transfer of the securities, in each case as may be appropriate to preserve our status as a real estate investment trust for federal income tax purposes. The applicable prospectus supplement will also contain information, where applicable, about federal income tax considerations relating to, and any listing on a securities exchange of, the securities offered by the prospectus supplement. The applicable prospectus supplement may also add to, update or change information contained in this prospectus. You should carefully read this prospectus and any applicable prospectus supplement, together with the addition information described under the heading **Where You Can Find More Information**, before you invest in any of our securities.

We may sell the securities offered by this prospectus directly, through agents designated by us from time to time, or to or through underwriters or dealers. If any agents, underwriters or dealers are involved in the sale of any of our securities, their names and any applicable purchase price, fee, commission or discount arrangements, between or among them, will be set forth, or will be calculable from the information set forth, in the applicable prospectus supplement.

None of our securities may be sold without delivery of a prospectus supplement.

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.**

The date of this prospectus is April \_\_\_\_\_, 2004.

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**INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE**

The documents listed below have been filed by us under the Securities Exchange Act of 1934 with the Securities and Exchange Commission and are incorporated by reference in this prospectus:

Our Annual Report on Form 10-K for the fiscal year ended April 30, 2003;

Our Quarterly Report on Form 10-Q for the quarterly period ended July 31, 2003;

Our Quarterly Report on Form 10-Q for the quarterly period ended October 31, 2003;

Our Quarterly Report on Form 10-Q for the quarterly period ended January 31, 2004;

Our Current Report on Form 8-K, filed with the Securities and Exchange Commission on June 27, 2003;

Our Current Report on Form 8-K, filed with the Securities and Exchange Commission on July 24, 2003;

Our Current Report on Form 8-K, filed with the Securities and Exchange Commission on January 7, 2003, and amended on March 9, 2004;

The description of our common shares contained in our Registration Statement on Form 10 (File No. 0-14851), dated July 29, 1986, as amended by the Amended Registration Statement on Form 10, dated December 17, 1986, and the Second Amended Registration Statement on Form 10, dated March 12, 1987.

We also incorporate by reference into this prospectus all documents that we file with the Securities and Exchange Commission pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 following the date of this prospectus and prior to the termination of the sale of our securities offered by this prospectus.

This means that important information about us appears or will appear in these documents and will be regarded as appearing in this prospectus. To the extent that information appearing in a document filed later is inconsistent with prior information, the later statement will control and the prior information, except as modified or superseded, will no longer be a part of this prospectus.

We will provide copies of all documents that are incorporated by reference into this prospectus and any applicable prospectus supplement (not including the exhibits other than exhibits that are specifically incorporated by reference) without charge to each person who so requests in writing or by calling us at the following address and telephone number:

Investors Real Estate Trust  
12 South Main Street  
Minot, N.D. 58701  
Attn: Michael A. Bosh, Secretary and General Counsel  
(701) 837-4738

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**IRET**

We are a self-advised equity real estate investment trust or REIT organized under the laws of North Dakota. Our business consists of owning and operating income-producing real properties. Our investments include multi-family residential properties and commercial properties, with such properties located primarily in the upper Midwest states of Minnesota and North Dakota.

Our multi-family residential properties include apartment buildings, complexes and communities. Our commercial properties include office buildings, retail stores and centers, industrial facilities and health care properties, such as clinics and assisted living centers. These commercial properties are typically leased to tenants under long term lease arrangements.

We operate in a manner intended to enable us to qualify as a REIT under the Internal Revenue Code. We operate in connection with an umbrella partnership real estate investment trust or an UPREIT, of which we are the general partner, and we conduct our day-to-day business operations through our operating partnership, IRET Properties, a North Dakota Limited Partnership. Our principal executive office is located at 12 South Main, Minot, North Dakota 58701 and our telephone number is (701) 837-4738.

**USE OF PROCEEDS**

Unless otherwise described in the applicable prospectus supplement, we intend to use the net proceeds from any sale of our securities for general business purposes, including the acquisition, development, renovation, expansion or improvement of income-producing real estate properties. Pending such use, the net proceeds may be invested in short-term income-producing investments, such as United States Treasury Bonds with terms of six months or less.

**DESCRIPTION OF COMMON SHARES**

**General.** Our Third Restated Declaration of Trust authorizes the issuance of an unlimited number of our common shares. As of January 15, 2004, (i) there were 40,777,066 of our common shares outstanding and 11,382,713 of our common shares to be issued upon conversion of previously issued limited partnership units, (ii) we had no classes or series of shares other than our common shares, and (iii) there were no warrants, options or other contractual arrangements, other than the limited partnership units, requiring the issuance of our common shares or any other shares.

The description of our common shares set forth below is in all respects subject to, and qualified in its entirety by reference to, the applicable provisions of our Third Restated Declaration of Trust, including any applicable amendments, and our Second Restated Trustees' Regulations (Bylaws), including any applicable amendments. The description of our common shares is also subject to any terms specified in any applicable prospectus supplement. All of our common shares offered by this prospectus will be duly authorized, fully paid and nonassessable.

**Voting Rights.** Subject to the provisions of our Third Restated Declaration of Trust regarding the restriction on the transfer of our common shares, our common shares have non-cumulative voting rights at the rate of one vote per common share on all matters submitted to the shareholders, including the election of members of our Board of Trustees.

Our Third Restated Declaration of Trust generally provides that whenever any action is to be taken by the holders of our common shares, such action will be authorized by a majority of the holders of our common shares present in person or by proxy at a meeting at which a quorum is present, except as otherwise required by law, our Third Restated Declaration of Trust or our Second Restated Trustees' Regulations (Bylaws). Our Third Restated Declaration of Trust further provides the following:



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- (i) that the following actions will be authorized by the affirmative vote of the holders of our common shares holding common shares possessing a majority of the voting power of our common shares then outstanding and entitled to vote on such action:

our termination;

our merger with or into another entity;

our consolidation with one or more other entities into a new entity;

the disposition of all or substantially all of our assets; and

the amendment of the Third Restated Declaration of Trust.

- (ii) that a member of our Board of Trustees may be removed with or without cause by the holders of our common shares by the affirmative vote of not less than two-thirds of our common shares then outstanding and entitled to vote on such matter.

Our Third Restated Declaration of Trust also permits our Board of Trustees, by a two-thirds vote and without any action by the holders of our common shares, to amend our Third Restated Declaration of Trust from time to time as necessary to enable us to continue to qualify as a real estate investment trust under the Internal Revenue Code.

**Dividend, Distribution, Liquidation and Other Rights.** Subject to the preferential rights of any preferred shares that we may issue in the future and the provisions of the Third Restated Declaration of Trust regarding the restriction on the transfer of our common shares, holders of our common shares are entitled to receive dividends on their common shares if, as and when authorized and declared by the Board of Trustees and to share ratably in our assets legally available for distribution to our shareholders in the event of our liquidation, dissolution or winding up after payment of, or adequate provision for, all known debts and liabilities. Our common shares have equal dividend, distribution, liquidation and other rights. Our common shares have no preference, conversion, exchange, sinking fund or redemption rights.

**Ownership and Transfer Restrictions.** Our common shares are fully transferable and alienable subject only to certain restrictions set forth in our Third Restated Declaration of Trust that are intended to help preserve our status as a REIT for federal income tax purposes. Then, more specifically, our Third Restated Declaration of Trust provides that any transaction, other than a transaction entered into through the NASDAQ National Market or other similar exchange, that would result in (i) a person owning in excess of the ownership limit, which as of the date of this prospectus is 9.8%, in number or value, of our outstanding securities, (ii) less than 100 people owning our securities, (iii) us being closely held within the meaning of Section 856(h) of the Internal Revenue Code, (iv) 50% or more of the fair market value of our securities being held by persons other than United States persons, as defined in Section 7701(a)(30) of the Internal Revenue Code, or (v) our disqualification as a REIT under Section 856 of the Internal Revenue Code, will be void ab initio. If any such transaction is not void ab initio, then the securities in excess of the ownership limit, that cause us to be closely held, that result in 50% or more of the fair market value of our securities being held by persons other than United States persons or that result in our disqualification as a REIT, would automatically be exchanged for an equal number of excess shares, and these excess shares will be transferred to an excess share trustee for the exclusive benefit of the charitable beneficiaries named by our Board of Trustees.

In such event, any dividends on excess shares will be paid to the excess share trust for the benefit of the charitable beneficiaries. The excess share trustee will be entitled to vote the excess shares, if applicable, on any matter. The excess share trustee may only transfer the excess shares held in the excess share trust as follows: (i) at the direction of our Board of Trustees to a person whose ownership of our securities would not violate the ownership limit; (ii) if securities were transferred to the excess share trustee due to a transaction or event that would have caused a violation of the ownership limit or would have caused us to be closely held, the excess share trustee will transfer the excess shares to the person who makes the highest offer for the excess shares, pays the purchase price and whose ownership will not violate the ownership limit or cause us to be closely held; and (iii) if excess shares were transferred to the excess share trustee due to a transaction or event that would have

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caused persons other than United States persons to own more than 50% of the value of our securities, the excess share trustee will transfer the excess shares to the United States person who makes the highest offer for the excess shares, pays the purchase price and whose ownership will not violate the ownership limit or cause us to be closely held.

When the excess share trustee makes any transfer, the person whose shares were exchanged for excess shares will receive (i) the lesser of (A) the price paid by such person or, if such person did not give value for the securities, the market price of the securities on the day the securities were exchanged for excess shares, and (B) the price received by the excess share trust for securities, minus (ii) any dividends received by the person whose shares were exchanged for excess shares that such person was under an obligation to pay over to the excess share trustee but has not repaid at the time of the distribution of proceeds, and minus (iii) any compensation for or expense of the excess share trustee.

**Transfer Agent and Registrar.** We act as our own transfer agent and registrar with respect to our common shares.

**DESCRIPTION OF PREFERRED SHARES**

Our Third Restated Declaration of Trust authorizes the issuance of an unlimited number of preferred shares. No preferred shares were outstanding as of the date of this prospectus. Our Board of Trustees has the authority, under our Third Restated Declaration of Trust, to establish by resolution more than one class or series of preferred shares and to fix the number and relative rights and preferences of such different classes or series of preferred shares without any further vote or action by our shareholders. Unless otherwise designated in our Third Restated Declaration of Trust, all series of our preferred shares will constitute a single class of our preferred shares.

The following description of our preferred shares sets forth certain general terms and provisions of the preferred shares to which any prospectus supplement may relate. The statements below describing our preferred shares are in all respects subject to, and qualified in their entirety by reference to, our Third Restated Declaration of Trust, our Second Restated Trustees Regulations (Bylaws), any applicable designating amendment to our Third Declaration of Trust establishing terms of a class or series of our preferred shares and any applicable prospectus supplement. Our preferred shares, when issued and delivered against payment for such shares, will be fully paid and nonassessable.

**General**

As our Board of Trustees has the power to establish the rights and preferences of each class or series of our preferred shares, our Board of Trustees may afford the holders of any class or series of our preferred shares rights and preferences, voting or otherwise, senior to the rights of holders of our common shares. The issuance of classes or series of preferred shares could have the effect of delaying or preventing a change of control that might involve a premium price for shareholders or otherwise be in their best interest.

The rights and preferences of each class or series of our preferred shares will be fixed by a designating amendment relating to the class or series. A prospectus supplement, relating to each class or series, will specify the terms of our preferred shares as follows:

the title and stated value of our preferred shares;

the number of our preferred shares offered, the liquidation preference per share and the offering price of our preferred shares;

the dividend rate(s), period(s) and/or payment date(s) or method(s) of calculation applicable to our preferred shares;

the date from which dividends on our preferred shares will accumulate, if applicable;

the procedures for any auction and remarketing, if any, for our preferred shares;

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- the provision for a sinking fund, if any, for our preferred shares;
- the provision for redemption, if applicable, of our preferred shares;
- any listing of our preferred shares on any securities exchange or association;
- the transfer agent and registrar for our preferred shares;
- the terms and conditions, if applicable, upon which our preferred shares will be convertible into our common shares, including the conversion price (or manner of calculation) and conversion period;
- a discussion of certain material federal income tax considerations applicable to our preferred shares;
- the relative ranking and preferences of our preferred shares as to dividend rights and rights upon our liquidation, dissolution or winding up;
- any limitation on issuance of any class or series of our preferred shares ranking senior to or on a parity with the class or series of preferred shares as to dividend rights and rights upon our liquidation, dissolution or winding up;
- any limitations on direct or beneficial ownership and restrictions on transfer of our preferred shares, in each case as may be appropriate to preserve our status as a REIT; and
- any other specific terms, preferences, rights, limitations or restrictions of our preferred shares.

**Rank**

Unless otherwise specified in the applicable prospectus supplement, our preferred shares will, with respect to rights to the payment of dividends and distribution of our assets and rights upon our liquidation, dissolution or winding up, rank (i) senior to our common shares and all other equity securities the terms of which provide that such equity securities are junior to our preferred shares; (ii) on a parity with all equity securities other than those referred to in clauses (i) and (iii); and (iii) junior to all equity securities the terms of which provide that such equity securities will rank senior to our preferred shares.

**Dividends**

Holders of our preferred shares will be entitled to receive, when, as and if authorized by our Board of Trustees and declared by us, out of our assets legally available for payment, cash dividends at rates and on dates as will be set forth in the applicable prospectus supplement. Each dividend will be payable to holders of record as they appear in our records on the record dates as will be fixed by our Board of Trustees.

Dividends on any class or series of our preferred shares may be cumulative or non-cumulative, as provided in the applicable prospectus supplement. Dividends, if cumulative, will accumulate from and after the date set forth in the applicable prospectus supplement. If our Board of Trustees fails to authorize a dividend payable on a dividend payment date on any class or series of our preferred shares for which dividends are noncumulative, then the holders of that class or series of our preferred shares will have no right to receive a dividend in respect of the dividend period ending on that dividend payment date, and we will have no obligation to pay the dividend accrued for that period, whether or not dividends on that class or series are declared payable on any future dividend payment date.

If any class or series of our preferred shares are outstanding, no full dividends will be authorized or paid or set apart for payment on any other class or series of our preferred shares ranking, as to dividends, on a parity with or junior to that class or series of our preferred shares for any period unless (i) with respect to classes or series of our preferred shares having