INVESTORS REAL ESTATE TRUST
Form S-3
August 07, 2003

Table of Contents

As filed with the Securities and Exchange Commission on August 7, 2003

Registration No. -

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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, Suite 100

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

Thomas A. Wentz, Jr.
Senior Vice President and General Counsel
12 South Main Street
Minot, ND 58701
(701) 837-4738
(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.
33 South Sixth Street
3400 City Center
Minneapolis, Minnesota 55402
(612) 343-2800

Approximate date of commencement of proposed sale to the public: As soon as practicable after the effective date of this Registration Statement.

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

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. þ

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. o

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. o

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

CALCULATION OF REGISTRATION FEE

Title of securities to be registered	Amount to be registered	Proposed maximum Offering price	Proposed maximum aggregate offering price	Amount of registration fee
Shares of Beneficial Interest, no par value	4,500,000 shares	$10.05(1)	$45,225,000(1)	$3,659

(1) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(c) of Regulation C under the Securities Act of 1933 as of the close of the market on August 4, 2003.

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, or until the Registration Statement becomes effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

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.

TABLE OF CONTENTS

Table of Contents

Subject to Completion, Dated August 7, 2003

PROSPECTUS

Investors Real Estate Trust

4,500,000 Shares of Beneficial Interest

Investors Real Estate Trust is a self-advised real estate investment trust that is engaged in acquiring, owning and leasing multi-family and commercial real estate. This prospectus relates to the public offering, which is not being underwritten, of up to 4,500,000 shares of beneficial interest, no par value, at an offering price of $. per share and an aggregate public offering price of $, , . Our shares of beneficial interest (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 August , 2003, the last reported sale price of our Shares, as reported on the NASDAQ National Market, was $. per share.

See Risk Factors Beginning on Page 8 of this Prospectus for a Description of the Risks that Should be Considered by Purchasers of the Shares.

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 a specific number or dollar amount of Shares. The broker-dealers will be paid a percent 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.

	Per Share	Total if all shares sold	Percentage
Public Offering Price	$.	$, ,	%
Less Selling Commission			
$. $, , %			
Proceeds to Us Before Expenses			
$. $, , %			

After the payment of all sales commissions, fees and expenses associated with this offering, and assuming all Shares are sold, we will receive approximately $, , or . % 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 is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus is August , 2003.

Table of Contents

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements included in this prospectus and the documents incorporated into this 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. Such 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 expressions. These statements indicate that w assumptions that are subject to a number of risks and uncertainties that could cause our actual results or performance to differ materially from those projected.

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

- the economic health of the markets in which we hold investments, specifically 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;
- 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;
- financing risks, such as the inability to obtain debt or equity financing on favorable terms, or at all;
- timely completion and lease-up of properties under construction;
- compliance with applicable laws, including those concerning the environment and access by persons with disabilities; and
- our inability to secure casualty insurance for losses caused by terrorist acts.

In light of these uncertainties, the events anticipated by our forward-looking statements might not occur. We undertake no obligation to update or revise our forward-looking statements, whether as a result of new information, future events or otherwise. The foregoing review of factors that could cause our actual results to differ materially from those contemplated in any forward-looking statements 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. 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. The Exchange Act filing number for IRET is 0-14851.

The Securities and Exchange Commission allows us to incorporate by reference the information we file with them, which means that we can disclose important information to you by referring you to those documents. The information incorporated by reference is considered to be part of this prospectus, and later

Table of Contents

information filed with the Securities and Exchange Commission will update and supersede this information. We incorporate by reference the documents listed below, and any future filings made with the Securities and Exchange Commission under Section 13(a), 13(c), 14 or 15(d) of the Exchange Act until our offering is completed.

The Company s Annual Report on Form 10-K for the year ended April 30, 2003; and

The Company s Current Report on Form 8-K, filed with the Securities and Exchange Commission on June 27, 2003.

The Company s Current Report on Form 8-K, filed with the Securities and Exchange Commission on July 24, 2003.

The description of the Company s shares of beneficial interest is contained in the Company s 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.

You may request a copy of these filings, at no cost, by writing or calling us at the following address and telephone number:

Timothy P. Mihalick

Investors Real Estate Trust
12 South Main Street
Minot, N.D. 58701
(701) 837-4738

Table of Contents

PROSPECTUS SUMMARY

This summary highlights information contained elsewhere in this prospectus and may not contain all of the information that you should consider before deciding to invest in our share of beneficial interest. You should read this summary together with the more detailed information appearing elsewhere in this prospectus or incorporated by reference into this prospects, including the section entitled Risk Factors and our consolidated financial statements and the related notes. Please note that certain statements included in this summary constitute forward-looking statements, as described above. Unless the context otherwise requires, references to the terms we, our, us, the Company and IRET refer to Investors Real Estate Trust and its consolidated subsidiaries.

IRET

Investors Real Estate Trust is a self-administered, self-managed equity real estate investment trust (REIT). Our business consists of owning and operating income-producing real properties. We are structured as an umbrella partnership real estate investment trust (UPREIT) and we conduct our day-to-day business operations though our operating partnership, IRET Properties, a North Dakota Limited Partnership. Our fundamental strategies involve making accretive real estate investments in the upper Midwest, primarily in Minnesota, North Dakota, South Dakota, Montana and Nebraska, and of diversifying our investments between multi-family residential and commercial properties. For the fiscal year ended April 30, 2003, our real estate investments in the states listed above accounted for 83% of our total gross revenue.

We seek to increase shareholder value by employing a disciplined investment strategy. This strategy is focused on growing assets in desired geographical markets, achieving diversification by property type and location, adhering to targeted returns in acquiring properties and regularly increasing funds from operations and dividend rates. We have increased our dividend every year since our inception 33 years ago and every quarter since 1988.

Our investments are diversified between multi-family residential and commercial properties. As of April 30, 2003, our real estate portfolio consisted of:

- 64 multi-family residential properties, containing 8,227 apartment units and having a total asset value (less accumulated depreciation) of $348.3 million; and
- 125 commercial properties, containing 6.1 million square feet of leasable space and having a total asset value (less accumulated depreciation) of $495.8 million.

Typically, we attempt to concentrate our multi-family residential properties in communities with populations of approximately 35,000 to 500,000 and we attempt to concentrate our commercial holdings in metropolitan areas with populations of approximately 100,000 to 3.0 million. Our multi-family residential properties include apartment buildings, complexes and communities. Our commercial properties include office buildings, warehouse and industrial facilities, medical office and health care facilities and retail stores and centers. As of April 30, 2003, no single tenant accounted for more than 10.0% of our total commercial rental revenues. At April 30, 2003, the economic occupancy rates on our multi-family residential properties and our commercial properties were 91.2% and 95.4%, respectively. Our average economic occupancy rates for stabilized properties for the fiscal year ended April 30, 2003, were 92.2% for multi-family residential properties and 95.3% for commercial properties. Economic occupancy rates are calculated by dividing the rent collected by the rent scheduled.

During the past fiscal year ended April 30, 2003, we acquired two multi-family residential properties, consisting of 132 units, for a total cost of $3.9 million; 62 commercial properties, with 2.4 million square feet of space, for a total cost of $163.5 million, and invested $7.1 million in expanding our Southdale Medical Center. Within the past twenty-four months, approximately 90.4% of our property acquisitions have been commercial properties due to the greater availability of these properties on terms that meet our financial and strategic objectives. Based on current market conditions, we anticipate that the percentage of

Table of Contents

commercial properties that we may acquire will continue to significantly exceed the number of multi-family residential properties that we may acquire during fiscal 2004. This may not be indicative of a long-term trend, however, as in future periods we may purchase a greater percentage of multi-family residential properties depending on market conditions.

We generally use available cash or short-term floating rate debt to acquire real estate. We then replace such cash or short-term floating rate debt with fixed-rate secured debt, typically in an amount equal to 65.0% to 70.0% of the acquisition cost. In appropriate circumstances, we also may acquire one or more properties in exchange for equity securities or limited partnership units of IRET Properties, which are convertible into our shares of beneficial interest (Shares) on a one-to-one basis after the expiration of a minimum one-year holding period. Subject to our continued ability to raise equity capital and exchange limited partnership units, we anticipate acquiring $100.0 million to $200.0 million of real estate assets on an annual basis.

We contract with locally based third-party management companies to handle all onsite management duties necessary for the proper operation of our properties. Generally, all of our management contracts provide for compensation ranging from 2.5% to 5.0% of gross rent collections and, in all but two contracts, we may terminate these contracts in 60 days or less. The two management contracts that may not be terminated in 60 days or less may be terminated if the manager fails to meet certain financial performance goals. 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.

We operate in a manner intended to enable us to qualify as a REIT under the Internal Revenue Code. In accordance with the Code, a REIT that distributes its capital gain and at least 90.0% of its taxable income to its shareholders each year, and meets certain other conditions, will not be taxed on the portion of taxable income that is distributed to shareholders.

Our Principal Executive Office

Our principal executive office is located at 12 South Main, Minot, North Dakota, 58701. Our telephone number is (701) 837-4738. We maintain a website at www.irets.com. Information on our website does not constitute part of this prospectus.

Table of Contents

Summary Operating Data Fiscal Years Ended April 20, 2003, 2002 and 2001.

In the table below, we are providing our summary financial and operating data for the fiscal years ended April 30, 2003, 2002 and 2001. The financial information for each of these years has been derived from our audited financial statements. You should read the following financial information in conjunction with our consolidated financial statements, and the related notes thereto, that are included in this prospectus on pages F-1 through F-56 and the financial information incorporated by reference in this prospectus.

	Fiscal Year Ended April 30		
	2003	2002	2001
	(amounts in thousands, except per share data)		
Consolidated income statement data			
Revenue	$119,135	$90,943	$74,130
Income before gain/loss on properties and minority interest	15,859	14,260	10,755
Gain on repossession/sale of properties	315	547	602
Minority interest of portion of operating partnership income	(4,613)	(3,913)	(2,210)
Net income	$12,248	$10,600	$8,694
Consolidated balance sheet data			
Total real estate investments	$845,325	$685,347	$548,580
Total assets	885,681	730,209	570,322
Shareholders equity	214,761	145,578	118,945
Per share data			
Net Income	.38	$.42	$.38
Dividends	.63	$.59	$.55

	Tax Year Ended December 31		
	2002	2001	2000
Tax Status of Distribution:			
Capital gain	0.00%	0.00%	0.72%
Ordinary income	68.30%	65.98%	86.76%
Return of capital	31.70%	34.02%	12.52%

Recent Developments

Fiscal 2003 Results

Our total revenues for the fiscal year ended April 30, 2003, were $119.1 million, as compared to $90.9 million for the fiscal year ended April 30, 2002. This represents an increase of $28.2 million or approximately 31.0%. This increase is primarily attributable to the addition of new properties to our investment portfolio.

We consider funds from operations (FFO) to be a useful measure of performance for an equity REIT. FFO is a supplemental non-GAAP financial measurement used as a standard in the real estate industry to measure and compare the operating performance of real estate companies. We use the National Association of Real Estate Investment Trusts, or NAREIT, definition of FFO. FFO is defined as net income or loss, excluding gains or losses from sales of depreciated property, plus operating property depreciation and amortization and adjustments for minority interest and unconsolidated companies on the same basis. A reconciliation of FFO to GAAP net income is included in the section of this prospectus entitled Management s Discussion and Analysis of Financial Condition and Results of Operations on page 21. FFO presented herein is not necessarily comparable to FFO presented by other real estate companies, as not all real estate companies use the same definition. FFO should not be considered as an alternative to net income, as determined in accordance with GAAP, or as a measure of our liquidity. FFO is not necessarily indicative of sufficient cash flow to fund all of our needs or our ability to service indebtedness or make distributions.

Our FFO for the fiscal year ended April 30, 2003, increased to $34.2 million, as compared to $29.1 million for the fiscal year ended April 30, 2002. This represents an increase of approximately 17.3%. On a per share and unit basis FFO was $0.8020 per share compared to $0.8627 per share, a decrease of 7.0%.

Recent Acquisitions

Since January 31, 2003, we have acquired the following properties:

Plaza VII Office Building Boise, Idaho. On January 31, 2003, we acquired the Plaza VII office building, a 27,297 square foot, multi-tenant commercial office building that was constructed in 1974. The property is located at 5257 Fairview Avenue, Boise, Idaho. The purchase price for the property was approximately $3.4 million. In addition to the purchase price, we incurred acquisition costs of $42,662 for closing costs, commissions, environmental reports and legal fees. As of April 30, 2003, the building is 80.4% leased to eleven tenants, with remaining lease terms ranging from one months to seven years. All rents paid by the current tenants are at market rates, and no single tenant occupies more than 39.0% of the total leasable space.

Westgate Plaza Boise, Idaho. On January 31, 2003, we acquired Westgate Plaza, which consists of two buildings; a 73,403 square foot single story building that was constructed in 1970 and a 29,939 square foot single story building constructed in 1998. Both buildings are located at 1700 Westgate Drive, Boise, Idaho. The purchase price was $11.5 million. The purchase price was paid in cash. In addition to the purchase price, we incurred acquisition costs of $117,750 for commissions, legal fees, environmental reports and closing costs. The property is 100.0% leased to the Health and Welfare Department of the State of Idaho through July 31, 2007. The annual base rental amount is approximately $1.4 million. In addition to the base rent, the tenant is obligated to pay that portion of the operating costs that exceed an agreed base amount. We expect to receive approximately $302,591 in additional rent from the State of Idaho as reimbursement of operating expenses and improvements under the terms of the lease. Operating expenses to be paid by us are estimated to be $685,000 annually resulting in annual net income to us before debt service of $996,666. Pursuant to the lease, the State of Idaho may elect to cancel the lease without penalty with 60 days written notice. We have entered into a non-binding loan agreement with GE Business Asset Funding for approximately $8.0 million at 5.9% annual interest fixed for 5 years and amortized over a 20-year term.

T. F. James Company Merger. On February 1, 2003, we entered into a Merger Agreement with the T. F. James Company, a privately held Iowa corporation primarily engaged in the development and ownership of retail and commercial real estate in Minnesota and surrounding states. Under the terms of the Agreement and Plan of Reorganization, all of the assets and liabilities of the T. F. James Company, including the T. F. James Company office located at 21500 Highway 7, Greenwood, Minnesota, were merged into IRET, Inc., our wholly-owned subsidiary. As a result of the merger, we acquired approximately 52 retail and commercial real estate properties, containing approximately 807,154 square feet of rentable space, as well as eight underdeveloped or primarily vacant parcels of real estate. As of April 30, 2003, these properties were 95.0% leased to 133 tenants, with remaining lease terms ranging from one month to 17 years. All rents paid by the current tenants are at market rates, and no single tenant occupies more than 9.0% of the total leasable space. The merger increased our real estate portfolio by $70.2 million, and is expected to increase our annual gross rental revenues by $6.4 million. As part of the merger, we also acquired all of the outstanding debt and liabilities of the T. F. James Company, which totaled $37.7 million. We also acquired eight undeveloped and vacant properties that accounted for approximately $2.8 million of the total transaction. These eight properties will either require additional funds for redevelopment or must be sold before we will recognize any income or value.

Table of Contents

*Benton Business Park (Phases I & II) Sauk Rapids, Minnesota*On July 1, 2003, we acquired Benton Business Park (Phases I & II), a 30,464 square foot, multi-tenant office/warehouse building that was constructed in 1996-97. The property is located at 800 & 940 Industrial Drive, Sauk Rapids, Minnesota. The purchase price for the property was $1.6 million, of which $309,617 was contributed by the seller in exchange for 31,117 limited partnership units of IRET Properties. In addition to the purchase price, we incurred acquisition costs of $6,924 for closing fees. As of July 1, 2003, the building is 90.8% leased to seven tenants, with remaining lease terms ranging from six months to three years. All rents paid by the current tenants are at market rates, and no single tenant occupies more than 22.1% of the total leasable space.

*West River Business Park (Building A) Waite Park, Minnesota*On July 1, 2003, we acquired West River Business Park (Building A), a 23,687 square foot, multi-tenant office/warehouse building that was constructed in 1997-98. The property is located at 420 Great Oak Drive, Waite Park, Minnesota. The purchase price for the property was $1.5 million, of which $540,830 was contributed by the seller in exchange for 54,355 limited partnership units of IRET Properties. In addition to the purchase price, we incurred acquisition costs of $5,470 for closing fees. As of July 1, 2003, the building is 100.0% leased to eight tenants, with remaining lease terms ranging from six months to three years. All rents paid by the current tenants are at market rates, and no single tenant occupies more than 12.5% of the total leasable space.

Connelly Estates Apartment Complex Burnsville, Minnesota. On July 29, 2003, we acquired the Connelly Estates Apartments, a 240 unit multi-family residential property located on 11.6 acres that was constructed in three phases from 1970 to 1973. The property is located at County Road 11 and 122nd Street East in Burnsville, Minnesota. The purchase price for the property was $13.9 million. The purchase price was paid with cash and cash equivalents in the amount of $7.4 million, with the balance of $6.1 million paid for with 624,256 limited partnership units of IRET Properties, having a value of $9.85 per unit. On July 30, 2003, we borrowed $10.0 million from Aetna Life Insurance Company, which is secured by the property, bearing interest at a fixed rate of 5.4% per year, payable in 240 monthly installments of $67,944. In addition to the purchase price, we incurred acquisition costs of $65,803 for closing fees, loan fees, environmental reports and legal fees.

Remada Court Apartment Complex Eagan, Minnesota. On July 29, 2003, we acquired the Remada Court Apartments, a 115 unit multi-family residential property located on 5.5 acres that was constructed in 1970. The property is located at 4150-4182 Rahn Road, Eagan, Minnesota. The purchase price for the property was $6.6 million. The purchase price was paid with cash and cash equivalents in the amount of $4.1 million, with the balance of $2.3 million paid for with 233,216 limited partnership units of IRET Properties, having a value of $9.85 per unit. On July 30, 2003, we borrowed $10.0 million from Aetna Life Insurance Company, which is secured by the property, bearing interest at a fixed rate of 5.4% per year, payable in 240 monthly installments of $67,944. In addition to the purchase price, we incurred acquisition costs of $37,146 for closing fees, loan fees, environmental reports and legal fees.

Winchester and Village Green Apartment Complex Rochester, Minnesota. On July 29, 2003, we acquired the Winchester and Village Green Apartments, a 151 unit multi-family residential property located on 8.7 acres that was constructed in the early 1970s. The property is located at 3980 19th Avenue NW and 1828-1898 41st Street NW, Rochester, Minnesota. The purchase price for the property was $8.9 million. The purchase price was paid with cash and cash equivalents in the amount of $4.7 million, with the balance of $3.9 million paid for with 391,102 limited partnership units of IRET Properties, having a value of $9.85 per unit. On July 30, 2003, we borrowed $10.0 million from Aetna Life Insurance Company, which is secured by the property, bearing interest at a fixed rate of 5.4% per year, payable in 240 monthly installments of $67,944. In addition to the purchase price, we incurred acquisition costs of $46,705 for closing fees, loan fees, environmental reports and legal fees.

Table of Contents

Change of Accountants

On July 23, 2003, our Board of Trustees, upon recommendation of our Audit Committee, terminated the engagement of Brady, Martz & Associates, P.C. our independent public accountants, and engaged Deloitte & Touche LLP to serve as our independent public accountants for the fiscal year ending April 30, 2004.

Third Restated Declaration of Trust

At our Annual Meeting of Shareholders to be held on September 23, 2003, our shareholders may approve Articles of Amendment and a Third Restated Declaration of Trust. Our Board of Trustees has already unanimously approved the Third Restated Declaration of Trust. As the record date for the Annual Meeting is August 1, 2003, persons purchasing Shares pursuant to this prospectus will not be entitled to vote on such proposal. If approved, the Third Restated Declaration of Trust will, among other things, remove all references to a sponsor or advisor; simplify our corporate governance by removing provisions regarding our investment policies, borrowing and other limitations and compensation and fees; modifying provisions regarding transfer restrictions and ownership limitations of Shares; and modifying provisions regarding our capital structure by allowing our Board of Trustees to establish by resolution more than one class or series of Shares and to fix the relative rights and preferences of such different class or series of shares without the prior approval of the shareholders. For a more complete summary of the material differences between our Second Restated Declaration of Trust and our proposed Third Restated Declaration of Trust, see Third Restated Declaration of Trust on Page 60 of this prospectus.

The Offering

Shares offered by IRET	4,500,000 Shares
Shares outstanding after the Offering	41,002,960*
Use of proceeds	For general business purposes, including the acquisition, development, renovation, expansion or improvement of income-producing properties.
NASDAQ National Market Symbol	IRETS

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* Based on 36,502,960 Shares outstanding at July 31, 2003. The number of Shares outstanding after the offering does not include 11,482,631 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 4,500,000 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.

Table of Contents

Price Range of Common Shares and Distributions

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 July 31, 2003, and the distributions we paid with respect to each period.

	High	Low	Distribution per Share
Fiscal 2002			
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, 2003.	10.45	9.51	0.1520
Fiscal 2003			
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
Fiscal 2004			
First Quarter ending July 31, 2003.	$10.81	$9.28	$0.1585

We currently anticipate that our Board will declare a regular quarterly dividend payable on October 1, 2003. We also anticipate that the record date for such regular quarterly dividend will precede the closing of this offering and, as such, persons purchasing Shares pursuant to this prospectus will not be entitled to receive such dividend.

RISK FACTORS

In addition to the other information contained or incorporated by reference in this prospectus, prospective investors should consider carefully the following factors when evaluating an investment in the Shares offered by this prospectus. Please note that certain statements included in this summary constitute forward-looking statements, as described above.

Risks Related to This Offering and the Purchase of Shares

The price of the Shares may be higher than the NASDAQ price. The $. price is higher than the price paid by most of the current holders of our Shares. The $. 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 17 of this prospectus.

The price of the Shares exceeds the book value of the Shares. The book value of our Shares is substantially less than the $. price. As of April 30, 2003, the book value of the 36,166,351 Shares then outstanding was $5.94 per share. Assuming all of the Shares registered under this offering are sold, the estimated resulting book value will be $. per share. Thus, a purchasing shareholder paying $. per share will incur an immediate book value dilution of $. 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.

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

- Operating results below expectations that cannot support the current dividend payment;
- Unanticipated cash requirements; or
- Concluding that the payment of dividends 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 were traded on the NASDAQ SmallCap Market from October 17, 1997 to April 8, 2002, and 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, as compared to commercial 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 24 months, approximately 90.4% of our property acquisitions have been commercial properties due to the greater availability of these properties on terms that meet our financial and strategic objectives. Commercial properties now comprise a majority of our real estate assets with the majority of our commercial assets 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 fiscal 2004. This may not, however, be a long-term trend as in future periods we may purchase a greater percentage of multi-family residential properties depending on market conditions.

Our historical experience in acquiring multi-family residential properties may not be directly applicable to the acquisition of a greater percentage 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 acquiring or managing commercial properties.

Current and future physical vacancies may negatively impact earnings. In the twelve months subsequent to April 30, 2003, leases covering approximately 16.1% of our total commercial square footage will expire. At April 30, 2003, approximately 7.6% of our total commercial square footage was vacant. Of that vacancy, approximately 16.4% is represented by a building in Rapid City, SD, formerly occupied by Conseco, which has been vacant since February 2003. As a result, if we are unable to rent or sell those properties that are vacant or affected by expiring leases, approximately 23.7% of our total commercial square footage 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, files for bankruptcy protection and rejects our lease. Such vacancies may negatively impact our earnings, may result in lower distributions to our shareholders and may cause a decline in the value of our real estate portfolio.

While it is difficult to clearly identify those specific properties that may not produce sufficient returns, we currently have three commercial properties that potentially fall into such category. All three locations are currently leased to Fleming Companies, Inc. (Fleming). Fleming filed a Chapter 11 Bankruptcy Petition on April 1, 2003. Fleming has until September 30, 2003, to either accept or reject the current leases. The three locations include a 48,244 square foot grocery store at the Maplewood Square Mall in Rochester, Minnesota, with seven years left on the lease at an annual net rent of $361,824, a 47,621 square foot grocery store at the West Lake Center Mall in Forest Lake, Minnesota, with five years left on the lease at an annual net rent of $183,000, and a 21,184 square foot grocery store at the Pine City Center Mall in Pine City, Minnesota, with six years left on the lease at an annual net rent of $118,958. Fleming is still paying rent and its share of operating costs at all three locations and, with the exception of the Rochester location, the locations are open for business. The Forest Lake location has been purchased by Roundy s Inc., a Wisconsin-based grocery company, and the lease at this location was assumed by Roundy s.

At April 30, 2003, approximately 6.5% of the units in our multi-family residential properties were physically vacant. Multi-family residential vacancies could increase from current levels due to general economic conditions, local economic or competitive conditions, unsatisfactory property management, the physical condition of our properties or other factors. An increase in vacancies in our multi-family residential properties may negatively impact our earnings, may result in lower distributions to our shareholders and may cause a decline in the value of our real estate portfolio.

Our inability to effectively manage our rapid growth may adversely affect our operating results. Our total assets have increased from $570.3 million at April 30, 2001, to $885.7 million at April 30, 2003, principally through the acquisition of additional real estate properties. Subject to our continued ability to raise equity capital and exchange limited partnership units, we anticipate acquiring $100.0 million to $200.0 million of real estate assets on an annual basis. Effective management of growth presents various challenges, including: the expansion of our management team and staff, diverted management attention, the enhancement of 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 may be adversely affected.

Our geographic concentration in North Dakota and Minnesota may result in losses. For the fiscal year ended April 30, 2003, we received 81.5% of our commercial gross revenue from commercial properties in Minnesota and 10.2% of our commercial gross revenue from commercial properties in North Dakota. Minnesota accounts for 66.9% of our commercial real estate portfolio by square footage, while North Dakota accounts for 13.1%. As a result of this concentration, we may be subject to substantially greater risk than if our investments were more geographically dispersed. Specifically, changes in local conditions, such as building by competitors or a decrease in employment, may adversely affect the performance of our investments much more severely.

For the fiscal year ended April 30, 2003, we received 16.7% of our apartment gross revenue from multi-family residential properties in Minnesota and 30.2% of our apartment gross revenue from multi-family properties in North Dakota. As of that same date, we owned 1,309 apartment units, 15.9% of our total number of apartment units, in Minnesota, and 2,794 apartment units, 34.0% of our total number of apartment units, in North Dakota.

The economic climate in Minnesota is highly dependent on the service, manufacturing and high technology industries. Economic weakening in any of these industries may adversely affect the performance of our real estate portfolio by decreasing demand for rental space. In contrast, the North Dakota economy is dependent on the agricultural and mineral development industries. Both of these industries have been depressed for most of the past decade and, in our opinion, there appears little prospect for improvement.

Unlike Minnesota, 69.5% of our assets in North Dakota are multi-family residential properties, which are dependent on a stable or growing population. If North Dakota s population declines, we may experience difficulty in renting our properties at acceptable rates. This would result in a decrease in net income and a corresponding decline in the level of distributions to our shareholders.

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, such 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. Such events may have a material adverse effect on us, our ability to make distributions to our shareholders and our ability to pay amounts due on our debt.

There are also thousands of private limited partnerships organized to invest in real estate. As such, we must compete with these entities for investments. The yields available on mortgage and other real estate investments depend upon many factors, including, the supply of money available for such investments and the demand for mortgage money. The presence of these competitors increases the price for real estate assets and the available supply of funds to our prospective borrowers. All these factors, in turn, vary in relation to many other factors, such as: general and local economic conditions; conditions in the construction industry; opportunities for other types of investments; and international, national and local political affairs, legislation, governmental regulation, tax laws and other factors. We cannot predict the effect that such factors will have on our operations.

Our inability to continue to make accretive property acquisitions may adversely affect our ability to increase our operating income. From Fiscal 2001 to Fiscal 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. 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 individual properties or our overall portfolio may result in losses. We seek to borrow approximately 65.0% to 70.0% of the cost of real estate purchased or constructed. The 70.0% per property borrowing limitation is a policy that has been established by management and approved by our Board of Trustees and may be changed at any time, or from time to time, without notice to, or the approval of, our shareholders. For the past three years ended April 30, our total mortgage indebtedness, as it relates to our total real estate assets at book value before depreciation, has been as follows:

	Fiscal 2003	Fiscal 2002	Fiscal 2001
Real Estate Assets	$ 919,780,802	$ 740,319,436	$ 591,636,468
Mortgages Payable	$539,397,202	$459,568,905	$368,956,930
Leverage Percentage	58.6%	62.1%	62.4%

In addition to the policy of not exceeding an overall 70.0% debt ratio on all real estate, our Second Restated Declaration of Trust provides that our total borrowings, secured and unsecured, must be reasonable in relation to our total net assets and reviewed by our Board of Trustees at least quarterly. The maximum borrowings in relation to the net assets, in the absence of a satisfactory showing that a higher level of borrowing is appropriate, may not exceed 300.0% of net assets before depreciation in the aggregate. Currently, our ratio of total indebtedness, as it relates to our total net assets, is 186.3%. As a result, we may, without any additional approval, increase our total indebtedness, as compared to total net assets, by 113.7% or $351.8 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 our shareholders in the next quarterly report, along with justification for such excess. In no event are we required to obtain the approval of our shareholders to increase our debt level.

For the past three years ended April 30, our total indebtedness, as it relates to our total net assets, has been as follows:

	Fiscal 2003	Fiscal 2002	Fiscal 2001
Total Net Assets	$ 576,317,935	$ 495,351,764	$ 389,086,105
Total indebtedness	$309,362,586	$234,857,254	$181,236,019
Leverage percentage	186.3%	210.9%	214.7%

This amount of leverage may expose us to cash flow problems if rental income decreases. Such a scenario may have an adverse effect on us to the extent that we must sell properties at a loss, we are unable to make distributions to our shareholders or we are unable to pay amounts due, which may result in a default on our obligations and the loss of the property through foreclosure.

The cost of our indebtedness may increase and the market value of our Shares may decrease due to rising interest rates. We have incurred, and we expect to continue to incur, indebtedness that bears interest at a variable rate. 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 our shareholders and our ability to pay amounts due on our debt.

As of April 30, 2003, $23.2 million, or 4.3%, of the total mortgage indebtedness was subject to variable interest rate agreements. The range of interest rates on the variable rate mortgages are from 3.5% to 7.5%. An increase of one percent in our variable interest rate would collectively increase our interest payments by $2.3 million annually.

In addition, an increase in market interest rates may cause shareholders to demand a higher yield on their Shares from distributions by us, which could adversely affect the market price for our Shares.

We may not be able to renew, repay or refinance our debt. 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; the risk that indebtedness on our properties, or unsecured indebtedness, will not be able to be renewed, repaid or refinanced when due; or that the terms of any renewal or refinancing will not be available on terms as favorable as 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. Such losses could have a material adverse effect on us, our ability to make distributions to our shareholders 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 Code.

The balance of our indebtedness in individual mortgage loans secured by individual commercial and residential properties totaled $539.4 million as of April 30, 2003. Of this amount, $23.2 million is subject to variable interest rate agreements and $516.2 million is in fixed rates mortgages. Of the outstanding mortgages, both fixed and variable, $15.1 million will come due during Fiscal 2004, $18.5 million will come due during Fiscal 2005 and the remaining balance will come due in later years.

Our mortgage lending activities may result in losses. For the three years ended April 30, 2003, 2002 and 2001, we had mortgages outstanding, less unearned discounts, deferred gain from property dispositions and allowance for losses, in the aggregate amounts of $1.2 million, $3.9 million and $1.0 million, respectively. As of April 30, 2003, all of our mortgage loans were current and none of the loans were in default.

All real estate investments are subject to some degree of risk that, in certain cases, vary according to the size of the investment as a percentage of the value of the real property. In the event of a default by a borrower on a mortgage loan, it may be necessary for us to foreclose our mortgage or engage in negotiations that may involve further outlays to protect our investment.

The mortgages securing our loans may, in certain instances, be subordinate to mechanics liens, materialmen s liens or government liens. In connection with junior mortgages, we may be required to make payments in order to maintain the status of the prior lien or to discharge it entirely. We may lose first priority of our lien to mechanics or materialmen s liens due to wrongful acts of the borrower. It is possible that the total amount that may be recovered by us in such cases may be less than our total investment, which may result in losses to us. The loans that we make may, in certain cases, be subject to statutory restrictions that limit the maximum interest charges and impose penalties, which including the restitution of excess interest. Such statutory restrictions may also, in certain cases, affect enforceability of the debt. There can be no assurance that all, or a portion of, the charges and fees that we receive on our loans will not be held to exceed the statutory maximum, in which case we may be subjected to the penalties imposed by the statutes.

We may change our policies relating to our mortgage lending at any time, and from time to time, without prior notice to, or the approval of, our shareholders.

We do not carry insurance against all possible losses. We carry comprehensive liability, fire, extended coverage and rental loss insurance with respect to our properties. No assurance can be given that such coverage will be available in the future or, if available, that such cov