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REITs

Price:	$6.46
Fair Value Estimate:	$7.00
52-Week Range:	$5.86 - $8.39
Equity Market Cap (M):	903.0
Shr.&Units O/S (M):	137.38
30-day Avg Daily Vol:	400,161
Dividend:	$0.52
Yield:	8.0%

FYE: Apr	2015A	2016A	2017E
Prior FFO:			NC

Quarterly FFO:

Q1	$0.14A	$0.16A	$0.11E
Q2	$0.17A	$0.06A	$0.12E
Q3	$0.17A	$0.40A	$0.12E
Q4	$0.16A	$0.14A	$0.12E
Year:	$0.64A	$0.76A	$0.47E

1 Year Price History for IRET

August 23, 2016

Investors Real Estate Trust (IRET) - BUY

Initiating coverage of IRET with a Buy rating

PORTFOLIO MANAGER BRIEF

We are initiating coverage of IRET with a Buy rating. Our $7 estimate of fair value implies ~10% upside for the stock, which when combined with an 8.1% dividend yield, provides an attractive potential return in the current market environment.

ANALYST NOTES

- Transitioning into a pure-play apartment REIT. Based in Minot, ND, IRET owned a portfolio of 102 apartment assets totaling 12,974 units across 7 states in the upper Midwest (as well as healthcare, office and industrial assets slated to be sold) as of April 30, with over one-third of its NOI coming from North Dakota. As of F4Q16, IRET's apartment portfolio was 90.8% occupied with an average monthly rent of $960 (both among the lowest in the apartment REIT subsector).
- De-leveraging via asset sales, inexpensive valuation, and strong returns from redevelopment the reasons to own IRET. We see upside to IRET's stock price given (1) management has targeted ~$600M of non-core assets for dispositions and will use a portion of the proceeds to reduce debt, (2) a reasonable valuation from both an NAV and multiple perspective (plus an 8.1% current dividend yield), and (3) strong returns (11.3% thus far) on its kitchen and bathroom redevelopment program being rolled out across its portfolio.
- 8.1% dividend yield as well as NAV and multiple valuations are attractive. IRET is trading at a 7.4% implied capitalization rate (7.2% or $81,000 per unit for their apartment assets), and C2017 FFO and AFFO multiples of 13.3x and 15.1x, respectively. Our $7 fair value estimate is based on our DCF valuation model.
- Exposure to "unloved markets", lengthy transition to an apartment REIT, and the North Dakota market overhang are our biggest concerns. However, the IRET story is not without risks, most notably: (1) IRET's core upper Midwest markets are largely "unloved" by investors; (2) the transition to a pure-play apartment REIT could take several years and become messy (including a potential "right-sizing" of the dividend); and (3) we believe IRET's ND markets (~35% of NOI) are likely to remain operationally challenging and an overhang on the stock.
- We remain Neutral on the US REITs despite the group having already exceeded our 10% total return expectation for 2016. Heading into 2H16, we believe strong generalist investor interest, solid internal growth, and continued access to inexpensive and plentiful capital are somewhat offset by strong valuations, greater levels of new supply, and the threat of higher interest rates.

RESEARCH ANALYST CERTIFICATIONS AND IMPORTANT DISCLOSURES ARE ON PAGES 17 - 19 OF THIS REPORT

Summary and Investment Thesis

Initiating coverage of IRET with a Buy rating and $7 fair value

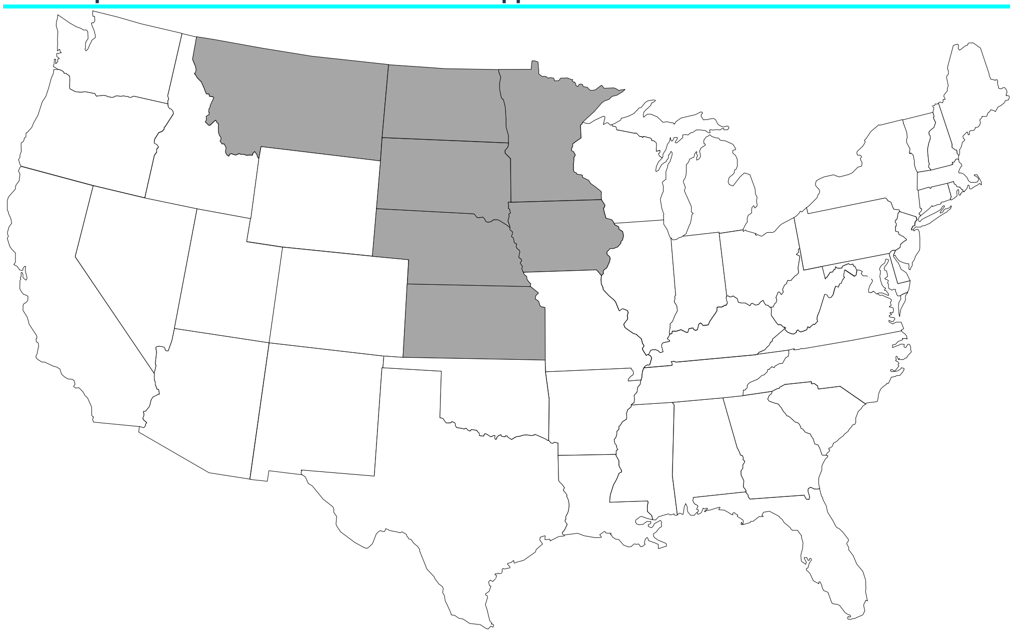
Our Buy rating on Investors Real Estate Trust (IRET) is based on the company's transition to a "pure-play" apartment REIT, a discounted valuation (including an 8.1% dividend yield) and our expectations of lower leverage going forward. This rating is within the context of our Negative weighting on the Diversified REITs, a Positive weighting on the Apartment REITs and our Neutral weighting on the REIT sector as a whole.

Headquartered in Minot, North Dakota, IRET was founded in 1970, and was later restructured as an Umbrella Partnership REIT (UPREIT). After announcing their intention in January 2015 to exit their retail and office segments, today, IRET is an owner, developer, operator and manager of primarily apartments, healthcare, and industrial assets in the upper Midwest states, with a concentration in Minnesota and North Dakota.

In June 2016, the company announced plans to also sell the healthcare and remaining commercial assets in order to become a pure-play apartment REIT. As of the end of fiscal 2016 (April 30 year-end), IRET owned 102 apartment properties (including 1 held for sale and 2 under construction) totaling 12,974 units, as well as 47 healthcare/commercial properties totaling 2.9 million square feet. IRET also had 33 senior housing properties totaling 2,054 units, one industrial property (195,075 square feet), and one medical office building (59,760 square feet) held for sale.

Figure 1

IRET's apartment assets are located in the Upper Midwest of the US



Source: Company documents, Janney Montgomery Scott LLC

Dividend yield one of the big positives with IRET

We like the 8.1% common dividend yield, but will it eventually have to be "right-sized" post the transition to a pure-play apartment REIT?

At present, IRET is trading at an 8.1% dividend yield and C2017 FFO and AFFO multiples of 13.3x and 15.1x, respectively (note: given IRET's April 30 year-end, our calendar 2017 estimates actually reflect the company's F4Q17 thru F3Q18 estimates, or February 2017 thru January 2018, in order to make as close of an "apples-to-apples" comparison as possible). Additionally, the stock's current implied cap rate of 7.4% (7.2% or roughly $81,000 per unit for the apartment assets only) is one of the highest in the peer group. Our $7 estimate of fair value is based on our DCF valuation model (see Appendix 3 for details).

Risks – Where we could be wrong on IRET?

While we like IRET's increasingly narrower operating focus and the current valuation, we have three primary concerns. (1) IRET's core upper Midwest markets are largely "unloved" by investors; (2) the transition to a pure-play apartment REIT could take several years and become "messy" operationally (especially if the dividend eventually needs to be "right-sized"); and (3) We believe IRET's North Dakota markets (~35% of NOI) are likely to remain challenging and could remain an overhang on the stock.

Recapping our REIT investment thesis

Despite the US Property REITs having already exceeded our 10% total return expectation for 2016, we remain Neutral on the sector heading into 2H16. While strong generalist interest, solid internal growth, and continued access to inexpensive and plentiful capital remain significant positive factors, we believe they are somewhat offset by strong valuations, greater levels of new supply, and the threat of higher interest rates.

In terms of our subsector views, we are positive on the Multifamily, CBD Office, and Industrial REITs; neutral on Data-Centers, Regional Malls, Self-Storage, Shopping Centers, Student/Manufactured Housing, Tower, and Triple-Net REITs; and negative on Diversified, Healthcare, Hotels, Suburban Office, and Single-Family REITs.

We note that IRET's fiscal year ends in April, and thus the company will soon report its F1Q17 quarter (July 31 end).

 RESEARCH ANALYST CERTIFICATIONS AND IMPORTANT DISCLOSURES ARE ON PAGES 17 - 19 OF THIS REPORT

Investment Positives on IRET

Becoming a "pure-play" apartment REIT should improve valuation

Diversified REITs have frequently been hit with the "jack of all trades and master of none" label. Historically, this has resulted in both discounted valuations and lower levels of institutional ownership. As IRET transitions into a "pure-play" apartment REIT, we believe it will attract more investors, and its valuation (both absolute and relative) should improve.

IRET trades at a discounted valuation relative to the peer group on multiples, dividend-yield, and various NAV measures…

…while we believe much of this is warranted, we do see some room for this valuation gap to close over time

Based on the current stock price, IRET's stock trades at a discounted valuation relative to the peer group on a variety of metrics. On a multiple basis, IRET trades at a 13.3x C2017 FFO per share multiple and a 15.1x C2017 AFFO per share multiple. This compares to 14.0x and 14.7x, respectively for the Diversified REITs, and 19.2x and 20.9x, respectively for the Multifamily REITs.

On a dividend-yield basis, IRET trades at an 8.1% current yield versus 5.0% for the Diversified REITs, and 3.2% for the Multifamily REIT peer group (and 3.7% for the REIT sector as a whole) with a payout ratio of 126% of C2016 AFFO (versus 73% for the Diversified REITs and 70.5% for the Multifamily peer group).

On an implied cap rate basis, IRET currently trades at a 7.4% implied cap rate (7.2% and $81,000 per unit for the apartments only) on our current numbers – discounts to both the Diversified and Multifamily REIT subsector averages.

While we believe that much of this valuation gap is currently warranted, we do see some room for the gap to close over time if IRET management is able to execute operationally, and reduce their leverage.

See Figure 3 and our Valuation and Key Financial Measures section for additional details.

IRET is likely to de-lever as a result of the upcoming asset sales

IRET's leverage ratios are currently all at the high-end of the peer group. This includes fixed charge coverage (2.1x versus the Diversified and Multifamily peer groups at 3.3x and 4.2x), debt plus preferred to enterprise value (58.5% versus the Diversified and Multifamily peer groups at 28% and 41%, respectively).

However, we expect these leverage levels will improve meaningfully as IRET sells the remainder of its healthcare and commercial assets over the next few years and uses a significant amount of the disposition proceeds to reduce debt.

Furthermore, as IRET increases its unencumbered asset pool (from 29 as of April 30), and the rating agencies become more comfortable with its market exposure, we believe IRET could eventually position itself to achieve an investment grade debt rating (allowing the company to manage its debt more efficiently).

IRET's redevelopment activities should see strong returns on capital

Redevelopment likely has the highest returns on invested capital of any of IRET's current investment choices

IRET recently launched a value-add program with the goal of spending $3.5 million per quarter to redevelop roughly 1,500 units in F2017. The roughly $7,000-$13,000 per unit program primarily targets the standard apartment kitchen and bathroom interior upgrades, and is expected to occur upon lease expiration. At present, IRET management is targeting an 8%-10% yield on the incremental dollars invested. During F2016, IRET redeveloped 539 units at an average cost of $7,553, with an average return on investment of 11.3%. We are modeling in $14 million of redevelopments in F2017 and $15 million in F2018.

Investment Risks on IRET

IRET's apartment assets are largely "unloved" by investors

IRET's apartment assets are highly concentrated in North Dakota, Minnesota, and Nebraska (Figure 2 below) – markets traditionally in lower demand by real estate investors. These smaller markets and populations have historically had limited institutional demand (limiting the ability to sell assets) and weaker same-store revenue growth over the course of the business cycle (note: at $960 per month, IRET has the second lowest average monthly rent per unit in the apartment space behind only NXRT).

Additionally, with little current or historical data for many of their markets/submarkets, investors remain concerned about what will happen to apartment demand if oil prices remain low or a major employer outside of Minneapolis downsizes (or closes). As of April 30, IRET's overall portfolio's apartment vacancy rate was 9.2% — substantially higher than the other sub-$1 billion market capitalization multifamily REITs (APTS, BRG, IRT, and NXRT), which have an average vacancy of roughly 6.0%

Additionally, nearly half of IRET's apartment assets have fewer than 100 units (IRET's average apartment property has 127 units), resulting in lower operating margins for IRET relative to the peer group as operating expenses are spread over fewer units. Even as IRET sells the remainder of its healthcare and commercial assets, we believe these factors could be impediments to convincing investors to buy IRET.

Figure 2

IRET's market exposure is likely to result in the highest cap rate in the peer group

Location	# of Properites	*% of Total Properties*	# of Units	*% of Total Units*	4/30/16 Occupancy
Iowa	2	*2%*	252	*2%*	98.4%
Kansas	5	*5%*	1,042	*8%*	97.0%
Minnesota	29	*28%*	3,995	*31%*	92.4%
Montana	6	*6%*	770	*6%*	90.8%
Nebraska	7	*7%*	1,562	*12%*	97.3%
North Dakota	41	*40%*	4,330	*33%*	83.7%
South Dakota	12	*12%*	999	*8%*	97.3%
Total	**102**	*100%*	**12,950**	*100%*	**90.8%**

Source: Company documents, Janney Montgomery Scott LLC

Transition to apartments could take several years (and be messy)

While most investors support IRET's decision to become a pure-play apartment REIT, we believe fewer may have the patience to wait the full 2 to 4 years that the transition may entail.

Will IRET be forced to "right-size" the common dividend post transition to a pure-play apartment REIT?

The extended time horizon is being driven primarily by the board's desire to execute 1031 like-kind exchanges (i.e. rolling the tax-basis of an existing asset being sold into a newly acquired replacement property) on much of the healthcare and commercial dispositions, rather than a bulk sale that could require IRET to pay a special dividend. This will require IRET to not only source a substantial number of apartment acquisitions over the next few years, but to also line up the closings to match the associated dispositions.

From our standpoint, this poses several significant issues, not the least of which are: (1) whether IRET's existing markets are deep enough from an apartment transaction standpoint to allow the REIT to redeploy the bulk of the disposition proceeds at acceptable returns over the next few years; (2) how deep the market demand is for IRET's healthcare and commercial assets given fewer institutional players in these markets (and how price sensitive IRET will be); and (3) how dilutive will this trade from healthcare/commercial to apartments be, and will the reduced cash flow (including the impact of reducing leverage) call into question the sustainability of the current common dividend (one of the major selling points on the stock).

Oil-driven North Dakota markets are likely to remain challenging

North Dakota remains IRET's most important apartment market, representing over one-third of all apartment assets and more than 35% of same-store apartment NOI (Figure 2). While Grand Forks, IRET's largest ND submarket, remains healthy, Bismarck has had occupancy issues (-440bps in F2016), while the oil-driven submarkets of Minot (-530bps occupancy change) and Williston (-1,410bps occupancy change) have been hit hard over the last few years (note: IRET's overall North Dakota portfolio was 83.7% occupied at April 30).

Driven by the dramatic oil price decline, North Dakota has seen a sharp reduction in drilling activity over the last few years. According to the North Dakota Government, the active oil drilling rig list in the state was down to 34 at the beginning of August, versus 74 a year ago, and 194 two years ago on the same date. With crude oil prices still below $50 per barrel, few are expecting a near-term bounce-back in one of the area's key economic drivers. Accordingly, job growth has fallen along with the rig count, with total North Dakota employment falling 14,000 or 3.1% year-over-year (as of June), and mining and logging jobs down 6,500 year-over-year or -28.3%. We note that North Dakota is also one of only three states where mortgage delinquencies are higher today than a year-ago (Wyoming and West Virginia are the other two).

Importantly, while representing just over 1,500 units (less than 12% of the total portfolio) and roughly 11% of IRET's F2016 same-store apartment NOI, we believe the oil-driven markets of Minot and Williston, North Dakota are likely to remain challenging for the foreseeable future (and a drag on IRET's operating results).

Valuation and Key Financial Measures

In valuing the REITs, we generally rely upon two primary valuation metrics – earnings multiples and net asset values (NAVs). In terms of earnings and earnings multiples, we use the REIT industry's Funds from Operations (FFO) and Adjusted Funds from Operations (AFFO) rather than EPS given the latter's inclusion of depreciation and gains on asset sales, which tend to distort the numbers.

In looking at a "hard asset" or "real estate" valuation, we find NAV (in the form of implied cap rates) provides the best measure.

What is IRET stock worth?

We used several valuation methods to ascertain what IRET stock is worth. Our fair value estimate is $7 and is primarily based on discounted cash flow model (see below for details).

Price to FFO and AFFO multiples are at the low-end of the group

Our C2016 and C2017 FFOPS estimates are $0.49 and $0.48, respectively. Our AFFO per share estimates are $0.41 and $0.42, respectively.

IRET has one of the cheapest FFO multiples in the Diversified subsector

Based on the current stock price, IRET's C2016E and C2017 FFO multiples are 13.0x and 13.3x versus 14.3x and 13.6x for the Diversified REITs as a whole (and 20.4x and 19.3x for the Multifamily REITs). Similarly, IRET's C2016E and C2017 AFFO multiples are 15.5x and 15.1x versus 14.6x and 14.3x for the Diversified REITs as a whole (and 22.1x and 21.0x for the Multifamily REITs).

We note that consistent with our other REIT coverage, we use the NAREIT definition of FFO and do not add back acquisition costs and other miscellaneous items for our FFO, CORE FFO, or AFFO estimates.

Stock price is implying a 7.4% cap rate for the overall portfolio

Based on consensus Net Asset Values (NAVs), the Diversified REITs are currently trading at roughly a 16% discount to NAV versus a 2.5% premium for the REIT sector as a whole.

Using our net operating income (NOI) assumptions and the company's current balance sheet, we believe IRET is trading at a 7.4% implied cap rate for the overall portfolio (7.2% or $81,000 per unit for just the apartment portfolio). *See Appendix 2 for detailed implied cap rate calculations.*

Current dividend yield of 8.1% is attractive

Based on the expected $0.52 per share annual common dividend, IRET's current yield is 8.1%. This compares to 3.7% for the REIT group as a whole and 5.0% and 3.2% for the Diversified and Multifamily REIT subsectors, respectively.

While the current 8.1% dividend yield is a major selling point for the stock, the dividend could be "right-sized" if the dilution from asset sales and debt reduction is too great

The current common dividend represents a payout of 126% of our C2016 AFFO estimate and 123% of our C2017 AFFO estimate.

Given the size and scope of IRET's announced dispositions, we do not expect the company to raise the common dividend any time soon.

Calculating our $7 "Fair Value" estimate for IRET

We value our REIT universe using a Free Cash Flow to the Firm (FCFF) model. This model incorporates our EBITDA estimates from F2017 to F2020 (subtracting out recurring capex and non- cash items, and development and acquisition spending). Our FCFF model applies a firm-specific WACC based on the company's capital structure to value those cash flows.

Our terminal value is derived by applying an EV/EBITDA multiple to F2020 EBITDA. For most REITs, EBITDA growth is primarily driven by NOI growth, along with net acquisitions and developments. We feel this DCF model better captures the future NOI upside in the outer years, which an NAV model tends to miss, and thus use it to derive our company-specific valuations.

Based on a 9% cost of equity, a 6.0% cost of debt, and a 13.3x exit EBITDA multiple, our fair value estimate for IRET is currently $7. *See Appendix 3 for complete details.*

Figure 3

Diversified and Multifamily REIT Peer Group Valuations (pricing as of August 19, 2016)

DIVERS. / MISC. Ticker	Name	Price	NAV	Implied Valuation Prm. (Dsc.)	Cap Rate	Value per Sq Ft	FFO Per Share 15A	16E	17E	FFO Multiples 14A	15A	16E	17E	FFO Growth 15A	16E	17E	AFFO Per Share 15A	16E	17E	AFFO Multiples 14A	15A	16E	17E	AFFO Growth 15A	16E	17E	Tkr
ALX	Alexanders	$431.85	$532.40	-19%			$21.06	$23.23	$24.18	22.8	20.5	18.6	17.9	11%	10%	4%	$19.12	$22.54	$23.50	24.3	22.6	19.2	18.4	8%	18%	4%	ALX
AAT	Amer Assets	$44.39	$47.40	-6%			$1.76	$1.86	$2.07	27.4	25.2	23.8	21.4	9%	6%	11%	$1.22	$1.38	$1.62	39.3	36.4	32.2	27.5	8%	13%	17%	AAT
AHH	Arm Hoffler	$13.58	$14.29	-5%	7.1%	$221	$0.87	$0.91	$0.98	17.0	15.6	14.9	13.9	9%	5%	7%	$0.79	$0.79	$0.83	20.3	17.1	17.1	16.4	18%	0%	4%	AHH
CMCT	CIM	$15.99																									CMCT
CXW	Corr Corp	$19.08	$40.49	-53%			$2.69	$2.66	$2.43	7.2	7.1	7.2	7.9	2%	-1%	-9%	$2.59	$2.56	$2.13	7.5	7.4	7.5	9.0	1%	-1%	-17%	CXW
FCE.A	Forest City	$22.85	$31.87	-28%			$1.36	$1.41	$1.48	13.1	16.8	16.2	15.4	-22%	4%	5%	$0.87	$0.99	$1.06	27.5	26.3	23.1	21.7	5%	14%	7%	FCE.A
FCPT	4 Corners	$20.76	$20.22	3%			$1.51	$1.31	$1.35		13.7	15.9	15.4		-14%	3%	$1.57	$1.20	$1.21		13.3	17.3	17.2		-23%	1%	FCPT
GLPI	Gam & Leis	$34.85					$1.89	$2.92	$3.11	14.7	18.4	11.9	11.2	-20%	54%	7%	$2.70	$2.95	$3.10	13.3	12.9	11.8	11.2	3%	9%	5%	GLPI
GEO	GEO	$23.68	$38.20	-38%			$2.76	$2.89	$2.97	8.7	8.6	8.2	8.0	1%	5%	3%	$3.34	$3.62	$3.72	7.4	7.1	6.5	6.4	4%	8%	3%	GEO
IRET	Inv. RE Tr.	$6.39	$7.46	-14%	7.4%		$0.78	$0.49	$0.48	10.0	8.2	13.0	13.3	22%	-37%	-2%	$0.52	$0.41	$0.42	13.9	12.3	15.6	15.2	13%	-21%	2%	IRET
IRM	Iron Mtn	$37.67	$41.06	-8%			$2.10	$2.16	$2.42	16.6	17.9	17.4	15.5	-7%	3%	12%	$2.36	$2.55	$2.62	13.0	16.0	14.8	14.4	-19%	8%	3%	IRM
NYRT	NY REIT	$10.03	$12.05	-17%			$0.39	$0.34	$0.41	20.9	25.7	29.3	24.6	-19%	-12%	19%	$0.40	$0.32	$0.35		25.4	31.8	29.1		-20%	10%	NYRT
WRE	Wash REIT	$32.64	$32.12	2%			$1.58	$1.73	$1.80	21.6	20.7	18.8	18.2	5%	10%	4%	$1.34	$1.43	$1.48	30.2	24.4	22.8	22.1	24%	7%	3%	WRE
WEIGHTED AVG				**-16%**						**14.8**	**16.0**	**14.7**	**14.0**	**-8%**	**11%**	**7%**				**15.3**	**15.8**	**15.0**	**14.7**	**0%**	**6%**	**4%**	
MEDIAN				**-14%**						**16.6**	**17.4**	**16.0**	**15.4**	**2%**	**4%**	**5%**				**17.1**	**16.5**	**17.2**	**16.8**	**6%**	**7%**	**4%**	

APARTMENTS Ticker	Name	Price	NAV	Implied Valuation Prm. (Dsc.)	Cap Rate	Value per unit	FFO Per Share 15A	16E	17E	FFO Multiples 14A	15A	16E	17E	FFO Growth 15A	16E	17E	AFFO Per Share 15A	16E	17E	AFFO Multiples 14A	15A	16E	17E	AFFO Growth 15A	16E	17E	Tkr
AIV	AIMCO	$43.74	$47.18	-7%	6.1%	$227,328	$2.22	$2.30	$2.47	21.1	19.7	19.0	17.7	7%	4%	7%	$1.87	$1.98	$2.14	25.7	23.3	22.1	20.4	10%	5%	9%	AIV
AVB	AvalonBay	$176.16	$191.42	-8%	4.9%	$401,438	$8.05	$8.35	$8.84	26.0	21.9	21.1	19.9	19%	4%	6%	$7.54	$7.82	$8.28	27.8	23.4	22.5	21.3	19%	4%	6%	AVB
BRG	Bluerock	$13.54	$16.89	-20%	5.2%	$164,360	$0.29	$0.35	$0.55		47.0	38.3	24.5	na	23%	57%	$0.25	$0.31	$0.50	21.3	54.1	44.1	27.0	na	23%	63%	BRG
CPT	Camden	$86.37	$89.62	-4%	6.0%	$195,995	$4.59	$4.53	$4.39	20.7	18.8	19.1	19.7	10%	-1%	-3%	$3.82	$3.99	$3.81	24.3	22.6	21.7	22.7	8%	4%	-4%	CPT
EQR	Eqy. Res.	$65.38	$71.11	-8%	5.1%	$414,143	$3.48	$2.99	$3.20	20.6	18.8	21.9	20.4	10%	-14%	7%	$3.25	$2.88	$3.02	24.3	20.1	22.7	21.7	21%	-11%	5%	EQR
ESS	Essex	$224.58	$236.06	-5%	4.9%	$388,134	$9.72	$11.00	$11.75	26.3	23.1	20.4	19.1	14%	13%	7%	$9.01	$10.12	$10.88	30.6	24.9	22.2	20.6	23%	12%	8%	ESS
IRT	Indep Realty	$9.34	$11.02	-15%			$1.37	$0.80	$0.86	13.0	6.8	11.7	10.8	90%	-42%	8%	$0.67	$0.72	$0.80	15.8	13.9	13.0	11.7	14%	7%	11%	IRT
MAA	MidAmer	$94.56	$96.95	-2%	6.1%	$137,520	$5.69	$6.09	$6.23	18.9	16.6	15.5	15.2	14%	7%	2%	$4.97	$5.38	$5.49	22.8	19.0	17.6	17.2	20%	8%	2%	MAA
MORE	Monogram	$10.47	$12.36	-15%			$0.38	$0.34	$0.45	38.8	27.6	30.8	23.1	41%	-11%	34%	$0.41	$0.37	$0.48		25.5	28.3	22.0		-10%	28%	MORE
NXRT	NexPoint	$20.80	$21.34	-3%			$1.20	$1.43	$1.60		17.3	14.6	13.0		19%	12%	$1.25	$1.53	$1.69		16.6	13.6	12.3		22%	10%	NXRT
PPS	Post	$66.63	$65.56	2%	5.3%	$211,618	$2.98	$3.22	$3.38	27.3	22.3	20.7	19.7	22%	8%	5%	$2.52	$2.70	$2.88	30.1	26.5	24.7	23.1	14%	7%	7%	PPS
APTS	Pref Apts	$14.16	$15.30	-7%			$0.74	$0.85	$1.10	14.0	19.1	16.6	12.9	-27%	15%	29%	$0.99	$1.18	$1.30	16.9	14.4	12.1	10.9	17%	19%	10%	APTS
UDR	UDR	$36.06	$37.78	-5%	5.1%	$329,226	$1.66	$1.77	$1.84	23.1	21.7	20.4	19.6	6%	7%	4%	$1.50	$1.63	$1.67	26.7	24.1	22.2	21.6	11%	9%	3%	UDR
WEIGHTED AVG				**-6%**						**22.9**	**20.3**	**20.2**	**19.2**	**13%**	**1%**	**6%**				**26.2**	**22.4**	**21.9**	**20.9**	**17%**	**2%**	**5%**	
MEDIAN				**-7%**						**21.1**	**19.7**	**20.4**	**19.6**	**14%**	**7%**	**7%**				**24.3**	**23.3**	**22.2**	**21.3**	**16%**	**7%**	**8%**	

Source: Factset, Janney Montgomery Scott LLC   * Note that IRET FFOPS/AFFOPS estimates have been adjusted to approximate calendar years due to the company's April year-end (e.g 2016 estimates reflect Feb 2016 thru Jan 2017 earnings)

Adjustments to go from FFO to AFFO

Typical REITs incur significant ongoing costs that are not included in the calculation of funds from operations (FFO), given its add-back of depreciation and amortization. Most notably, these adjustments include recurring, but non-revenue-producing, capital expenditures (maintenance capex), tenant improvements (upfront costs to build out a tenant's space), leasing commissions (paid to brokers for new leases and renewals), fair value of lease revenue, and straight-line rents.

We believe adjusting FFOPS for these capitalized costs that are more appropriately expensed provides a clearer picture of earnings and cash flow. And so we add or subtract these routine items (as well as other adjustments such as stock based compensation) from the NAREIT definition of FFO to get to our proxy for cash-flow called Adjusted Funds from Operations – or AFFO (note: others use CAD – Cash Available for Distribution or FAD – Funds Available for Distribution to denote the same or similar calculations).

We note that given IRET's decision to become a pure-play multifamily REIT, the main adjustments from FFO to AFFO are recurring, but non-revenue producing, capex, along with non-cash compensation.

Is IRET's AFFO CAPEX adjustment sufficient for its portfolio?

One frequent criticism that we often hear about IRET is that the roughly $400 per apartment unit that management runs through the recurring but non-revenue producing CAPEX line in the AFFO adjustment is insufficient for the size, age, and location of its portfolio, especially given that most of the major apartment REITs use $1,000 per unit (or more) annually.

Given IRET's accounting policies, we note that in addition to the $400 per unit of recurring but non-revenue producing CAPEX running through AFFO, the company also expenses a significant amount of expenses through its "maintenance expense" line item (which runs ~$5 million to $6 million per quarter).

Nevertheless, our AFFO estimates reflect a $200 per unit annual recurring but non-revenue producing CAPEX adjustment over and above IRET's own number (i.e. we use $600 per unit plus whatever is being included in the "maintenance expense" line item) as we believe this number better reflects IRET's portfolio on an "apples-to-apples" basis with the other apartment REITs.

Balance Sheet and Capital Structure

IRET has an equity market capitalization of roughly $900 million

On a fully diluted basis as of April 30, IRET had 121.1 million shares of common stock outstanding and 16.3 million operating partnership units (OP units) outstanding, which can be converted into common stock on a one-for-one basis at the holder's option (137.4 million shares and units in total), representing a current equity market capitalization of roughly $900 million.

Combined with $144 million of preferred stock and $995 million of net debt, IRET has an enterprise value of just under $2.0 billion at present.

Figure 4

IRET currently has a ~$2.0B enterprise value at the current stock price

Item	Amount (000s)	% of EV
Common Stock Outstanding	121,091	6.2%
OP Units Outstanding	16,285	0.8%
Shares and Units Outstanding	***137,376***	7.0%
Equity Market Capitalization	**$877,833**	45.0%
Series A Preferred Stock Outstanding	$28,750	1.5%
Series B Preferred Stock Outstanding	$115,000	5.9%
Total Preferred Stock Outstanding	***$143,750***	7.4%
Mortgage Debt Outstanding	$817,324	41.9%
Line of Credit Balance	$17,500	0.9%
Other Debt Outstanding	$82,130	4.2%
Debt on Assets Held for Sale	$77,712	4.0%
Total Debt Outstanding	***$994,666***	51.0%
Cash	($66,698)	-3.4%
Enterprise Value	**$1,949,551**	100.0%

Source: Company Documents, Janney Montgomery Scott LLC * based on a $6.39 stock price

$144 million of preferred stock outstanding

Currently, IRET has two series (A and B) of perpetual preferred stock outstanding with a liquidation value of roughly $144 million.

The Series A Preferred was issued in April 2004, with 1.15 million shares outstanding today. The $25 par value security ($28.75 million liquidation value) has an 8.25% yield. Similarly, the Series B Preferred was issued in August 2012 and carries a 7.95% yield. There are currently 4.6 million shares ($25 par value; $115 million liquidation value) outstanding, and the security becomes callable on August 7, 2017.

Given the 8.25% coupon, we would expect IRET to utilize upcoming disposition proceeds to redeem the Series A preferred later this year.

$995 million of debt outstanding; Sizeable expiration in F2017

Collectively, IRET has $994.7 million of debt outstanding (including $17.5 million on the line of credit and $77.7 million on assets held for sale at April 30), with a weighted average interest rate of 4.5% and a weighted average maturity of 6.5 years. The good news is that roughly 15% of IRET's debt is due for repayment in F2017. We expect IRET will be able to achieve a lower rate on the debt that they choose to refinance, and incur lower pre-payment penalties on the debt that is repaid as a result of asset sales.

As IRET executes its disposition program, we expect management will target a leverage ratio of less than 55% including preferred stock on a sustained basis (although the company's disposition program could temporarily push them above that threshold).

As IRET completes its transition to a pure-play apartment REIT, we expect this leverage ratio will be closer to 40% in order to more closely mirror the peer group.

Based on April 30 balance sheet data, IRET has a fixed-charge coverage ratio of 2.1 and a debt-plus-preferred to enterprise value of 58.5% (versus 3.3x and 41% for the Diversified subsector, 4.2x and 28% for the Apartment subsector and 4.0x and 32% for the REIT sector overall).

Figure 5

IRET has nearly 15% of its debt maturing in fiscal 2017

Fiscal Year	Fixed Rate Debt	Variable Rate Debt	Total Debt	Weighted Avg Interest Rate	% of Total Debt
2017	$64,832	$65,341	$130,173	3.3%	14.7%
2018	$17,771	$27,982	$45,753	3.9%	5.2%
2019	$34,121	$52,210	$86,331	4.0%	9.7%
2020	$101,773	$51,268	$153,041	5.5%	17.3%
2021	$130,335	$0	$130,335	5.0%	14.7%
2022	$108,805	$0	$108,805	5.6%	12.3%
2023	$40,670	$0	$40,670	4.3%	4.6%
Thereafter	$191,039	$0	$191,039	4.1%	21.6%
Total	**$689,346**	**$196,801**	**$886,147**	**4.5%**	**100.0%**

Source: Company documents, Janney Montgomery Scott LLC

$100M secured line of credit had $17.5M outstanding at April 30

IRET has a $100 million multi-bank line of credit secured by mortgages on 17 properties (properties can be added and removed from the collateral pool with the consent of the lenders). The line carries an interest rate of 1.25% over the Wall Street Journal Prime Rate (with a floor of 4.75% and a cap of 8.65%), with the current interest rate at 4.75% and expires on September 1, 2017. Given the lack of an extension option, we expect IRET will start the refinancing process shortly, and may be in a position to target an unsecured line going forward.

Importantly, the existing line includes covenants and restrictions requiring IRET to maintain a debt service coverage ratio on borrowing base collateral of 1.25x (and 1.00x on individual assets in the collateral pool) and to maintain a minimum of $6.0 million with First International Bank ($1.5 million of which is held in a non-interest bearing account). The debt service coverage ratio was 1.86x as of 4Q16, up notably from the previous 4 quarter average of 1.64x.

Future share issuances and repurchases

In recent years, IRET has completed one follow-on offering in April 2013 for 6.0 million shares, raising $55.6 million of gross proceeds, as well as roughly $75 million under its At-the-Market (ATM) program. We note that the company does not currently have an At-the-Market (ATM) program in place (terminated in June 2016) given the discounted valuation of the stock.

Given the robust pricing for apartment assets in most of IRET's markets, as well as the expected proceeds from the sale of the healthcare and commercial assets, we would expect very modest common share issuances over the next few years (IRET issued only $5.6 million of common stock in F2016 under its Dividend Reinvestment Program – DRIP after issuing $64.9 million in F2015 and $55.8 million in F2014). Given the current share price, our model currently reflects no near-term equity issuance.

In fact, in fiscal 2016, IRET bought back 4.6 million common shares under its $50 million stock repurchase program. Depending on the amount of proceeds from the various asset sales as well as IRET's acquisition pipeline, we could see additional material repurchases.

 RESEARCH ANALYST CERTIFICATIONS AND IMPORTANT DISCLOSURES ARE ON PAGES 17 - 19 OF THIS REPORT

Apartment Portfolio Overview

As of April 30, IRET owned 102 apartment properties (including 1 held for sale and 2 under construction) totaling 12,974 units, as well as 47 healthcare/commercial properties totaling 2.9 million square feet. IRET also had 33 senior housing properties totaling 2,054 units, one industrial property (195,075 square feet), and one medical office building (59,760 square feet) held for sale. As of April 30, IRET's apartment portfolio was 90.8% leased, with an average rent of $960 per month.

Note: Given the company's recent announcement that it would sell-off its remaining healthcare and commercial assets and become a pure-play apartment REIT, we have focused on IRET's apartment assets in this section.

Figure 6

IRET currently has 12,974 apartment units across 7 states

Property Name	Location	Units	4/30/16 Occupancy	Property Name	Location	Units	4/30/16 Occupancy
Indian Hills	Sioux City, IA	120	99.2%	Cottonwood	Bismarck, ND	268	84.3%
Ridge Oaks	Sioux City, IA	132	97.7%	Crestview	Bismarck, ND	152	98.7%
Iowa Total		**252**	**98.4%**	Kirkwood Manor	Bismarck, ND	108	88.0%
				Legacy Heights	Bismarck, ND	119	74.8%
Brookfield Village	Topeka, KS	160	99.4%	North Pointe	Bismarck, ND	73	86.3%
Crown Colony	Topeka, KS	220	94.5%	Northridge	Bismarck, ND	68	94.1%
Mariposa	Topeka, KS	54	98.1%	Pebble Springs	Bismarck, ND	16	93.8%
Sherwood	Topeka, KS	300	96.7%	River Ridge	Bismarck, ND	146	95.2%
Villa West	Topeka, KS	308	97.7%	Westwood Park	Bismarck, ND	65	96.9%
Kansas Total		**1,042**	**97.0%**	Ashland	Grand Forks, ND	84	92.9%
				Cardinal Point	Grand Forks, ND	251	44.2%
Colonial Villa	Burnsville, MN	240	91.7%	Forest Park	Grand Forks, ND	269	93.7%
Boulder Court	Eagan, MN	115	100.0%	Gardens	Grand Forks, ND	74	100.0%
71 France	Edina, MN	181	53.0%	Landmark	Grand Forks, ND	90	97.8%
Arcata	Golden Valley, MN	165	86.7%	Legacy	Grand Forks, ND	360	92.2%
Evergreen	Isanti, MN	36	100.0%	Southpoint	Grand Forks, ND	96	96.9%
Evergreen II	Isanti, MN	36	100.0%	Southwind	Grand Forks, ND	164	98.8%
Rum River	Isanti, MN	72	100.0%	Valley Park	Grand Forks, ND	167	97.0%
Red 20	Minneapolis, MN	130	94.6%	Deer Ridge	Jamestown, ND	163	50.9%
Monticello Village	Monticello, MN	60	95.0%	Meadows	Jamestown, ND	81	87.7%
Avalon Cove	Rochester, MN	187	95.7%	11th Street 3 Plex	Minot, ND	3	66.7%
Cascade Shores	Rochester, MN	90	93.3%	4th Street 4 Plex	Minot, ND	4	100.0%
Crown	Rochester, MN	48	97.9%	Apartments on Main	Minot, ND	10	100.0%
Crystal Bay	Rochester, MN	76	94.7%	Brooklyn Heights	Minot, ND	72	95.8%
French Creek	Rochester, MN	40	100.0%	Chateau I & II	Minot, ND	104	84.6%
GrandeVille at Cascade Lake	Rochester, MN	276	74.6%	Colton Heights	Minot, ND	18	83.3%
Heritage Manor	Rochester, MN	182	98.4%	Commons at Southgate	Minot, ND	233	95.3%
Northern Valley	Rochester, MN	16	100.0%	Fairmont	Minot, ND	12	100.0%
Olympik Village	Rochester, MN	140	94.3%	First Avenue	Minot, ND	20	90.0%
Quarry Ridge	Rochester, MN	313	99.0%	Landing at Southgate	Minot, ND	108	89.8%
Sunset Trail	Rochester, MN	146	91.8%	Pines	Minot, ND	16	100.0%
Village Green	Rochester, MN	36	100.0%	Plaza	Minot, ND	71	98.6%
Winchester	Rochester, MN	115	95.7%	South Pointe	Minot, ND	196	87.8%
Woodridge	Rochester, MN	108	99.1%	Southview	Minot, ND	24	87.5%
Ponds at Heritage Place	Sartell, MN	58	100.0%	Summit Park	Minot, ND	95	89.5%
Cypress Court	St. Cloud, MN	196	96.4%	Temple	Minot, ND	4	100.0%
Grand Gateway	St. Cloud, MN	116	95.7%	Terrace Heights	Minot, ND	16	93.8%
Regency Park Estates	St. Cloud, MN	145	96.6%	Westridge	Minot, ND	33	97.0%
Park Meadows	Waite Park, MN	360	95.0%	Dakota Commons	Williston, ND	44	86.4%
West Stonehill	Waite Park, MN	312	96.2%	Renaissance Heights	Williston, ND	288	43.8%
Minnesota Total		**3,995**	**92.4%**	Williston Garden	Williston, ND	145	66.2%
				North Dakota Total		**4,330**	**83.7%**
Castlerock	Billings, MT	166	90.4%				
Country Meadows	Billings, MT	133	92.5%	Alps Park	Rapid City, SD	71	100.0%
Olympic Village	Billings, MT	274	86.5%	Canyon Lake	Rapid City, SD	109	96.3%
Pinehurst	Billings, MT	21	85.7%	Homestead Garden	Rapid City, SD	152	99.3%
Rimrock West	Billings, MT	78	96.2%	Pointe West	Rapid City, SD	90	94.4%
Rocky Meadows	Billings, MT	98	98.0%	Silver Springs	Rapid City, SD	52	98.1%
Montana Total		**770**	**90.8%**	Cottage West Twin Homes	Sioux Falls, SD	50	100.0%
				Gables Townhomes	Sioux Falls, SD	24	100.0%
Colony	Lincoln, NE	232	98.7%	Oakmont Estates	Sioux Falls, SD	79	98.7%
Lakeside Village	Lincoln, NE	208	93.3%	Oakwood Estates	Sioux Falls, SD	160	96.9%
Thomasbrook	Lincoln, NE	264	97.0%	Oxbow Park	Sioux Falls, SD	120	96.7%
Cimarron Hills	Omaha, NE	234	95.3%	Prairie Winds	Sioux Falls, SD	48	91.7%
Greenfield	Omaha, NE	96	97.9%	Sierra Vista	Sioux Falls, SD	44	95.5%
Whispering Ridge	Omaha, NE	336	98.5%	**South Dakota Total**		**999**	**97.3%**
Arbors	S Sioux City, NE	192	100.0%				
Nebraska Total		**1,562**	**97.3%**	**Total**		**12,950**	**90.8%**

Source: Company Documents, Janney Montgomery Scott LLC * PineCone Villas is held for sale as of April 30,2016 – Sartell, MN – 24 units – 100% occupied

IRET's apartment portfolio shares little in common with the peer group

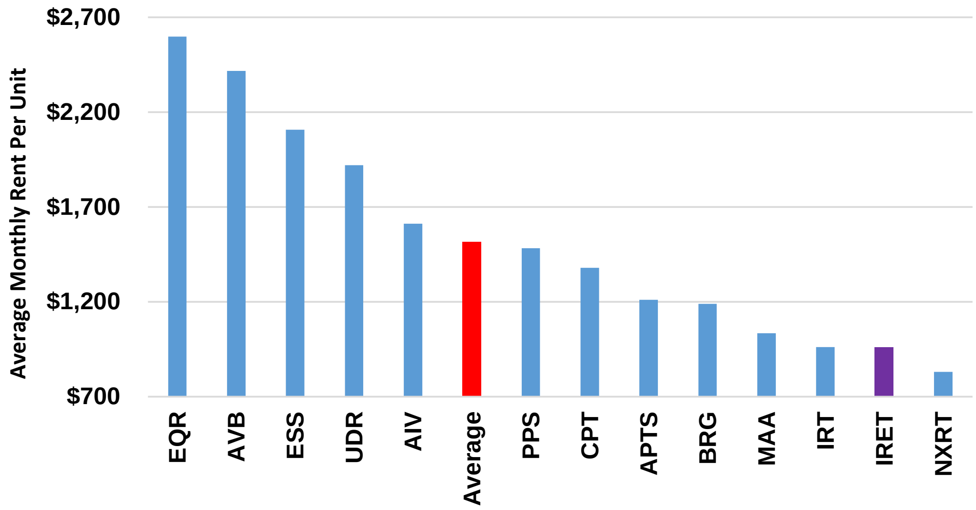
Typically, we characterize apartment REITs as either Class A (higher-end targeting renters by choice) or Class B (older assets targeting renters by necessity), Coastal (East and/or West) or Sunbelt, developers or acquirers, and so forth.

IRET does not fit neatly into any of these buckets, and following the sale of its remaining healthcare and commercial properties, IRET will be the smallest internally advised and managed apartment REIT (by a considerable amount), and one of the smallest apartment REITs overall.

Not only are IRET's apartment assets located in markets and submarkets in the upper Midwest, where other public real estate companies do not operate, there are few data services with reliable historical data in these markets.

Figure 7

IRET's average monthly rents are only above NXRT in the apartment REIT space



Source: Company documents, Janney Montgomery Scott LLC

IRET's assets typically have fewer units versus traditional institutional-quality apartment assets (the average IRET asset is only 127 units in size), with nearly 50% of the company's assets less than 100 units. We believe these smaller properties typically have lower operating margins as staff and amenities are spread over fewer tenants.

From an average monthly rent perspective, IRET is near the bottom end of the apartment REIT peer group at $960 per month (ahead of only NexPoint Residential Trust – NXRT, not rated), although we note effective monthly rents have increased 13.4% over the last 3 years. We believe replicating that growth going forward will be more difficult as outlined earlier in this report (especially given the issues in their energy-related markets of Minot and Williston North Dakota – two of IRET's highest rent markets).

Figure 8

IRET's same-store apartment portfolio has a number of challenging markets today

						Change in Y/Y Same-Store				
Market	Units	4/30/2016 Occupancy	F2016 Weighted Avg Occupancy	F2016 % of SS NOI	F2016 Avg Rental Rate	REV	EXP	NOI	Rents	Occupancy
Billings, MT	770	90.8%	92.8%	8.0%	$899	-1.6%	6.0%	-6.6%	2.6%	-4.2%
Bismark, ND	909	90.4%	92.5%	11.7%	$1,049	-0.6%	10.1%	-6.3%	3.8%	-4.4%
Grand Forks, ND	1,230	94.9%	94.4%	12.9%	$917	-1.8%	-0.5%	-2.7%	0.8%	-2.6%
Minneapolis, MN	319	99.1%	98.1%	3.1%	$886	6.6%	4.6%	8.5%	4.1%	2.5%
Omaha, NE	1,370	96.9%	96.3%	12.7%	$863	6.6%	9.6%	3.9%	1.6%	5.0%
Rapid City, SD	270	96.7%	97.0%	2.5%	$829	2.0%	4.4%	-0.1%	2.2%	-0.2%
Rochester, MN	1,104	97.0%	96.3%	14.9%	$1,062	5.9%	0.4%	9.8%	4.1%	1.8%
Sioux Falls, SD	969	97.9%	97.5%	7.6%	$803	4.6%	7.9%	1.0%	3.7%	0.9%
St. Cloud, MN	991	96.0%	94.3%	6.8%	$832	4.3%	7.4%	0.0%	3.1%	1.2%
Topeka, KS	1,042	97.0%	96.1%	9.0%	$757	5.3%	-0.6%	10.7%	2.4%	2.9%
Subtotal - Non Energy Markets	**8,974**	**95.5%**	**95.2%**	**89.2%**	**$895**	**3.0%**	**4.9%**	**1.4%**	**2.7%**	**0.3%**
Minot, ND	734	91.1%	90.8%	8.0%	$1,040	-13.2%	12.7%	-27.8%	-7.9%	-5.3%
Williston, ND	145	66.2%	73.8%	2.8%	$2,051	-42.5%	-1.3%	-55.5%	-28.4%	-14.1%
Total - Same-Store	**9,853**	**94.8%**	**94.2%**	**100.0%**	**$922**	**-0.5%**	**5.3%**	**-5.0%**	**0.4%**	**-0.9%**

Source: Company documents, Janney Montgomery Scott LLC

IRET is putting a revenue management system into place this year

IRET just recently adopted a revenue management system (LRO) for pricing units and maximizing revenues. While IRET is late to the party (these systems were adopted by most of the pure-play apartment REITs a decade-plus ago), we view this as a near- and longer-term positive for the REIT and its future operating results.

We expect new development to remain on "pause" for now

Given their historically higher cost of capital than many peers, development has been an important part of the IRET growth story. Not only did development allow IRET to achieve higher returns on invested capital than on acquisitions, but it also gave IRET a newer portfolio with lower near-term maintenance capital expenditures (CAPEX).

Today, the company faces somewhat of a development dilemma as they refocus the business as a pure-play apartment REIT. They can continue to develop in markets and submarkets where they can find land and achieve a solid return on invested capital, but that may negatively impact their stock from a risk and valuation perspective. Alternatively, they could push into new markets adjacent to their existing footprint that are likely to be better received by analysts and investors, but those are areas with higher land costs and lower development returns (these are also markets where IRET has no existing expertise).

Figure 9

IRET has 2 apartment projects remaining in its development pipeline

Development	Location	Units	Total Cost (000)	Costs to Date (000)	Construction Completion	% Leased	IRET Ownership
71 France	Edina, MN	241	$73,290	$71,727	1Q17	49.4%	100.0%
Monticello Crossings	Monticello, MN	202	$31,784	$17,507	2Q17	5.5%	52.6%
Total		**443**	**$105,074**	**$89,234**			

Source: Company documents, Janney Montgomery Scott LLC

Today, IRET has two remaining apartment assets under development — the 241 unit 71 France development (wholly-owned) in Edina, MN ($73.3 million total cost; 50% leased; expected to be delivered in July), and the 202 unit Monticello Crossings development (53% IRET ownership) in Monticello, MN ($31.8 million total cost; 5% leased; expected to be delivered in the fall).

Given the anticipated sale of the healthcare and commercial assets, we expect management's primary focus to be on acquisitions as they attempt to match acquisitions and dispositions to limit near- and longer-term dilution. Accordingly, we have no new apartment development starts through F2018 in our model, and even when IRET does restart the pipeline, we expect new development to generally be limited to 5% (or less) of the REIT's asset base due to risk concerns.

IRET has started to be more proactive on the redevelopment front

IRET recently launched a value add program with the goal of spending $3.5 million per quarter to redevelop roughly 1,500 units in F2017. The roughly $7,000-$13,000 per unit program is primarily targeting the standard apartment kitchen and bathroom interior upgrades, and is expected to occur upon lease expiration. At present, IRET management is targeting an 8%-10% yield on the incremental dollars invested. During F2016, IRET completed redevelopment on 539 units at an average cost of $7,553, with an average return on investment of 11.3%.

We are modeling in $14 million of redevelopments in F2017 and $15 million in F2018.

Modeling in $137.5M of acquisitions and $200M+ of dispositions in F2017

Given IRET's decision to become a pure-play apartment REIT, we have modeled just over $200 million of dispositions in F2017 and nearly $300 million in F2018 (primarily the healthcare and commercial assets), with IRET completely exited from healthcare and commercial by the end of F2019.

With IRET seeking to reduce debt as well as utilize 1031 like-kind exchanges for much of their dispositions in order to minimize tax and distribution requirements, we are modeling in less than $140 million of acquisitions in F2017 and $150 million in F2018 (note: IRET acquired 6 apartment assets for roughly $137 million in F2016, (or roughly $184,000/unit).

Appendices

Appendix 1 Investors Real Estate Trust (IRET) – Income Statement

			2015A					2016A					2017E		
***Year Ends April 30 ***	1QA	2QA	3QA	4QA	2015A	1QA	2QA	3QA	4QA	2016A	1QE	2QE	3QE	4QE	2017E
Real estate rentals	57,126	58,835	60,440	59,451	235,852	45,522	46,727	50,277	44,065	186,591	42,063	42,614	43,085	43,351	171,113
Tenant reimbursement	10,711	11,207	11,513	10,387	43,818	4,396	4,578	4,492	4,458	17,924	3,954	4,006	4,050	4,075	16,085
TRS senior housing revenue	793	843	963	921	3,520	1,038	965	1,003	0	3,006	0	0	0	0	0
Total Revenue	**68,630**	**70,885**	**72,916**	**70,759**	**283,190**	**50,956**	**52,270**	**55,772**	**48,523**	**207,521**	**46,017**	**46,620**	**47,135**	**47,426**	**187,197**
Utilities	(4,681)	(5,093)	(5,367)	(5,740)	(20,881)	(3,206)	(3,124)	(3,427)	(3,385)	(13,142)	(3,231)	(3,274)	(3,310)	(3,330)	(13,145)
Maintenance	(7,764)	(7,828)	(7,799)	(7,533)	(30,924)	(5,374)	(5,784)	(5,821)	(5,708)	(22,687)	(5,449)	(5,520)	(5,581)	(5,616)	(22,165)
Real estate taxes	(8,501)	(8,266)	(8,816)	(8,362)	(33,945)	(4,917)	(5,002)	(5,029)	(5,617)	(20,565)	(5,362)	(5,432)	(5,492)	(5,526)	(21,812)
Insurance	(1,736)	(1,345)	(1,479)	(1,279)	(5,839)	(1,100)	(1,244)	(1,214)	(1,202)	(4,760)	(1,147)	(1,162)	(1,175)	(1,183)	(4,668)
Property management expenses	(4,630)	(4,355)	(4,746)	(4,771)	(18,502)	(3,871)	(4,635)	(4,676)	(4,402)	(17,584)	(4,202)	(4,257)	(4,304)	(4,331)	(17,094)
Other property expenses	(206)	(350)	(227)	(123)	(906)	(356)	(243)	(169)	(210)	(978)	(200)	(203)	(205)	(207)	(815)
TRS senior housing expenses	(693)	(725)	(825)	(754)	(2,997)	(769)	(812)	(912)	0	(2,493)	0	0	0	0	0
Net Operating Income (NOI)	**40,419**	**42,923**	**43,657**	**42,197**	**169,196**	**31,363**	**31,426**	**34,524**	**27,999**	**125,312**	**26,425**	**26,772**	**27,067**	**27,235**	**107,499**
General and administrative	(3,664)	(3,468)	(3,242)	(2,516)	(12,890)	(2,454)	(2,933)	(2,929)	(2,951)	(11,267)	(2,785)	(2,822)	(2,853)	(2,870)	(11,330)
Advisory and trustee services	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Equity Income in JVs	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Misc Item	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
EBITDA	**36,755**	**39,455**	**40,415**	**39,681**	**156,306**	**28,909**	**28,493**	**31,595**	**25,048**	**114,045**	**23,640**	**23,950**	**24,214**	**24,364**	**96,169**
Interest income	560	560	561	557	2,238	556	565	566	569	2,256	396	402	406	409	1,612
Other income	131	136	109	347	723	51	100	135	31	317	53	54	54	54	215
Other expenses	(612)	0	0	(332)	(944)	0	(1,204)	(86)	(950)	(2,240)	(79)	(80)	(81)	(82)	(322)
Depreciation/amortization related to real estate investments	(16,184)	(16,828)	(16,834)	(17,266)	(67,112)	(13,272)	(14,461)	(14,789)	(13,517)	(56,039)	(13,150)	(13,160)	(12,876)	(12,454)	(51,640)
Amortization related to non-real estate investments	(872)	(840)	(916)	(867)	(3,495)	(171)	(169)	(130)	0	(470)	0	0	0	0	0
Interest expense	(14,664)	(14,599)	(14,595)	(15,162)	(59,020)	(9,196)	(10,131)	(10,540)	(10,062)	(39,929)	(9,649)	(9,336)	(9,328)	(9,007)	(37,320)
Impairment of real estate investments	(2,320)	(3,245)	(540)	0	(6,105)	(1,285)	(1,873)	(162)	(2,223)	(5,543)	0	0	0	0	0
Acquisition Expenses	0	0	0	0	0	0	0	0	(397)	(397)	0	0	0	0	0
Misc Expenses	0	0	0	0	0	0	(106)	0	0	(106)	0	0	0	0	0
Income From Continuing Operations	**2,794**	**4,639**	**8,200**	**6,958**	**22,591**	**5,592**	**1,214**	**6,589**	**(1,501)**	**11,894**	**1,211**	**1,828**	**2,390**	**3,285**	**8,714**
Gain (loss) on sale of real estate and other investments	(2,993)	1,231	951	6,904	6,093	(175)	0	1,446	8,369	9,640	5,930	3,000	5,500	7,000	21,430
Income from discontinued operations	0	0	0	0	0	(690)	15,463	35,408	1,463	51,644	750	750	750	750	3,000
Other Adjustments	0	0	0	0	0	0	0	0	3,424	3,424	0	0	0	0	0
Net Income	**(199)**	**5,870**	**9,151**	**13,862**	**28,684**	**4,727**	**16,677**	**43,443**	**11,755**	**76,602**	**7,891**	**5,578**	**8,640**	**11,035**	**33,144**
Net income attributable to noncontrolling interests - Operating Pa	402	(363)	(657)	(908)	(1,526)	(186)	(1,527)	(4,227)	(1,092)	(7,032)	(529)	(535)	(541)	(545)	(2,150)
Net income attributable to noncontrolling interests - consolidated	(354)	(393)	(123)	(2,201)	(3,071)	(1)	1,516	581	340	2,436	317	321	325	327	1,290
Net income attributable to Investors Real Estate Trust	(151)	5,114	8,371	10,753	24,087	4,540	16,666	39,797	11,003	72,006	7,680	5,364	8,424	10,817	32,284
Dividends to preferred shareholders	(2,879)	(2,878)	(2,879)	(2,878)	(11,514)	(2,879)	(2,878)	(2,879)	(2,878)	(11,514)	(2,879)	(2,879)	(2,879)	(2,879)	(11,514)
Net Income to Common Shareholders	**(3,030)**	**2,236**	**5,492**	**7,875**	**12,573**	**1,661**	**13,788**	**36,918**	**8,125**	**60,492**	**4,801**	**2,485**	**5,545**	**7,938**	**20,770**
Funds From Operations															
Noncontrolling interest - Operating Partnership	(402)	363	657	908	1,526	186	1,527	4,227	1,092	7,032	529	535	541	545	2,150
Depreciation and amortization	17,037	17,624	17,706	18,083	70,450	18,259	14,860	14,975	15,694	63,788	16,438	16,451	16,094	15,567	64,550
Impairment of real estate investments	2,320	3,245	540	0	6,105	1,725	1,873	162	2,223	5,983	0	0	0	0	0
Gain on depreciable property sales	2,993	(1,231)	(951)	(4,890)	(4,079)	175	(23,909)	(1,778)	(7,910)	(33,422)	(5,930)	(3,000)	(5,500)	(7,000)	(21,430)
Misc FFO Adjustments	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Funds From Operations (FFO)	**18,918**	**22,237**	**23,444**	**21,976**	**86,575**	**22,006**	**8,139**	**54,504**	**19,224**	**103,873**	**15,837**	**16,471**	**16,681**	**17,050**	**66,040**
Adjusted Funds From Operations															
Recurring Maintenance CAPEX - Per IRET	(1,386)	(1,567)	(1,865)	(1,342)	(6,160)	(1,636)	(1,713)	(1,406)	(825)	(5,580)	(1,456)	(1,760)	(1,785)	(1,501)	(6,502)
Additional Recurring Maintenance CAPEX - Per Janney						(541)	(696)	(704)	(584)	(2,525)	(603)	(755)	(767)	(638)	(2,763)
Tenant Improvements at same-store properties	(2,169)	(542)	(1,984)	(2,939)	(7,634)	(191)	(157)	(383)	(778)	(1,509)	(238)	(247)	(250)	(256)	(991)
Leasing costs at same-store properties	(578)	(699)	(358)	(684)	(2,319)	(336)	(59)	(102)	(89)	(586)	(79)	(82)	(83)	(85)	(330)
Straight-line rents	(268)	(103)	184	198	11	242	(309)	(554)	(238)	(859)	(158)	(165)	(167)	(171)	(660)
Non-real estate depreciation	99	96	94	100	389	101	80	80	93	354	40	41	42	43	165
Default interest	0	0	0	528	528	1,550	1,567	1,566	0	4,683	158	165	167	171	660
Share based compensation expense	1,029	601	260	280	2,170	66	539	787	864	2,256	396	412	417	426	1,651
Misc AFFO Adjustments	0	0	0	0	0	0	7,226	(36,456)	(3,424)	(32,654)	0	0	0	0	0
Adjusted Funds From Operations (AFFO)	**15,645**	**20,023**	**19,775**	**18,117**	**73,560**	**21,261**	**14,617**	**17,332**	**14,243**	**67,453**	**13,897**	**14,080**	**14,254**	**15,039**	**57,270**
Gross Dividends	(17,073)	(17,328)	(17,591)	(17,864)	(69,856)	(18,045)	(18,013)	(17,646)	(17,737)	(71,442)	(17,975)	(18,092)	(18,210)	(18,328)	(72,606)
Retained Cash Flow	**(1,428)**	**2,695**	**2,184**	**253**	**3,704**	**3,216**	**(3,397)**	**(314)**	**(3,494)**	**(3,988)**	**(4,078)**	**(4,012)**	**(3,956)**	**(3,290)**	**(15,336)**
EPS - Diluted	($0.03)	$0.02	$0.05	$0.06	$0.11	$0.01	$0.11	$0.30	$0.07	$0.49	$0.04	$0.02	$0.04	$0.06	$0.17
FFO Per Share – NAREIT Definition (Diluted)	**$0.14**	**$0.17**	**$0.17**	**$0.16**	**$0.64**	**$0.16**	**$0.06**	**$0.40**	**$0.14**	**$0.76**	**$0.11**	**$0.12**	**$0.12**	**$0.12**	**$0.47**
FFO Per Share – Normalized	**$0.14**	**$0.17**	**$0.17**	**$0.16**	**$0.64**	**$0.16**	**$0.11**	**$0.40**	**$0.14**	**$0.81**	**$0.11**	**$0.12**	**$0.12**	**$0.12**	**$0.47**
AFFO Per Share	**$0.12**	**$0.15**	**$0.15**	**$0.13**	**$0.55**	**$0.15**	**$0.11**	**$0.13**	**$0.10**	**$0.49**	**$0.10**	**$0.10**	**$0.10**	**$0.11**	**$0.41**
Common Dividends Per Share	$0.13	$0.13	$0.13	$0.13	$0.52	$0.13	$0.13	$0.13	$0.13	$0.52	$0.13	$0.13	$0.13	$0.13	$0.52
FFO Payout Ratio	90%	78%	75%	81%	81%	82%	221%	32%	92%	69%	113%	110%	109%	107%	110%
AFFO Payout Ratio	109%	87%	89%	99%	95%	85%	123%	102%	125%	106%	129%	128%	128%	122%	127%
Year-Over-Year FFOPS Growth	-9%	6%	-2%	18%	2%	10%	-65%	132%	-12%	18%	-28%	101%	-70%	-14%	-37%
Weighted Avg Shares - Diluted	111,039	117,034	120,855	123,286	118,004	124,855	124,665	121,864	121,091	123,119	122,923	123,823	124,729	125,641	124,279
Weighted Avg Shares and Units - Diluted	131,332	133,295	135,316	137,412	134,598	138,806	138,565	135,741	136,438	137,372	138,270	139,170	140,076	140,988	139,626

Source: Company documents, Janney Montgomery Scott LLC E = Estimates A = Actual

Appendix 2 Investors Real Estate Trust (IRET) – Calendar Year Estimates

Quarter Ends on:	4/30/15	7/31/15	10/31/15	1/31/16		4/30/16	7/31/16	10/31/16	1/31/17		4/30/17	7/31/17	10/31/17	1/31/18	
			2015A					2016A					2017E		
Calendar Year	1QA	2QA	3QA	4QA	2015A	1QA	2QE	3QE	4QE	2016A	1QE	2QE	3QE	4QE	2017E
EPS - Diluted	$0.06	$0.01	$0.11	$0.30	$0.49	$0.07	$0.04	$0.02	$0.04	$0.17	$0.06	$0.07	$0.09	$0.09	$0.31
Funds From Operations Per Share (FFOPS)	**$0.16**	**$0.16**	**$0.06**	**$0.40**	**$0.78**	**$0.14**	**$0.11**	**$0.12**	**$0.12**	**$0.49**	**$0.12**	**$0.12**	**$0.12**	**$0.12**	**$0.48**
CORE Funds From Operations Per Share (CFFOPS)	**$0.16**	**$0.16**	**$0.11**	**$0.40**	**$0.83**	**$0.14**	**$0.11**	**$0.12**	**$0.12**	**$0.49**	**$0.12**	**$0.12**	**$0.12**	**$0.12**	**$0.48**
Adjusted Funds From Operations Per Share (AFFOPS)	**$0.13**	**$0.15**	**$0.11**	**$0.13**	**$0.52**	**$0.10**	**$0.10**	**$0.10**	**$0.10**	**$0.41**	**$0.11**	**$0.11**	**$0.10**	**$0.10**	**$0.42**
Common Dividends Per Share	$0.13	$0.13	$0.13	$0.13	$0.52	$0.13	$0.13	$0.13	$0.13	$0.52	$0.13	$0.13	$0.13	$0.13	$0.52
FFO Payout Ratio	81%	82%	221%	32%	67%	92%	113%	110%	109%	106%	107%	109%	108%	107%	108%
AFFO Payout Ratio	99%	85%	123%	102%	100%	125%	129%	128%	128%	128%	122%	124%	127%	126%	125%

Source: Company documents, Janney Montgomery Scott LLC E = Estimates A = Actual

Appendix 3 Investors Real Estate Trust (IRET) – Implied Cap Rate

	Current
NOI Calculation - forward 4 quarters	
Triple-Net NOI	27,999
Straight line rents	(238)
Quarterly NOI	27,761
Same-store growth rate (next 12mos)	2.0%
Forward 4Q Property NOI	113,265
Enterprise Value	
Total Debt	916,954
Preferred Stock	138,674
Partner's Share of JV Debt	(60,000)
Cash and cash equivalents	(66,698)
A/R and Other Assets	(12,701)
A/P & Other Liabilities	39,727
Net Liabilities (Net Assets)	(39,672)
Adjusted Debt/Preferred	955,956
Share price	**$6.39**
End of Period Shares/Units	137,376
Equity Value	877,833
Subtotal Implied Ent. Val.	1,833,789
Adjustments to NOI/EV	
BV Properties Under Development	51,681
Premium	110%
Value of Prop Under Development	56,849
Land	20,939
Premium	110%
Value of Land	23,033
Net Book Value of Assets held for sale	143,049
Premium	150%
Value of Assets held for sale	214,574
Other Income	600
Other Income Cap Rate	5.0x
Other Income Value	12,000
Subtotal EV Adjustments	306,456
NOI	113,265
Implied Enterprise Value	1,527,333
Implied Cap Rate - All Properties	**7.42%**
Recurring CAPEX	(8,105)
Adjusted Economic NOI	105,160
Implied Economic Cap Rate - All Properties	**6.89%**
Implied Multifamily Cap Rate	**7.17%**
Recurring CAPEX	(7,130)
Adjusted Economic NOI	68,322
Implied Multifamily Economic Cap Rate	**6.49%**
Multifamily Unit Count	12,974
Implied Multifamily Price/Unit	**$81,088**

Source: Company documents, Janney Montgomery Scott LLC E = Estimates A = Actual

Appendix 4 **Investors Real Estate Trust (IRET) – Free Cash Flow to the Firm (aka DCF) Model**

WACC (50% leverage, 6.00% cost of debt, 9% cost of equity)	7.50%
terminal growth (g)	2.50%
EBITDA exit multiple	13.3x
Terminal Value of Firm = 2020 EBITDA * multiple	1,480,056
PV of Terminal Value	1,108,267
+ PV of cash flows (F2017-F2020)	474,890
+ Properties Under Development	56,849
+ Land Value	23,033
+ Other Assets (incl. JV)	214,574
Value of Firm	1,877,613
- Adjusted Debt/Preferred/Future Development Spend	(955,956)
= Equity Value	921,657
shares outstanding	137,376
Equity value per share 1-year forward	**$7.00**

Source: Company documents, Janney Montgomery Scott LLC E = Estimates A = Actual

IMPORTANT DISCLOSURES

Research Analyst Certification

I, Robert Stevenson, the Primarily Responsible Analyst for this research report, hereby certify that all of the views expressed in this research report accurately reflect my personal views about any and all of the subject securities or issuers. No part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views I expressed in this research report.

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Janney Montgomery Scott LLC currently acts as a market-maker in the securities of Investors Real Estate Trust.

Janney Montgomery Scott LLC intends to seek or expects to receive compensation for investment banking services from Investors Real Estate Trust in the next three months.

The research analyst is compensated based on, in part, Janney Montgomery Scott's profitability, which includes its investment banking revenues.

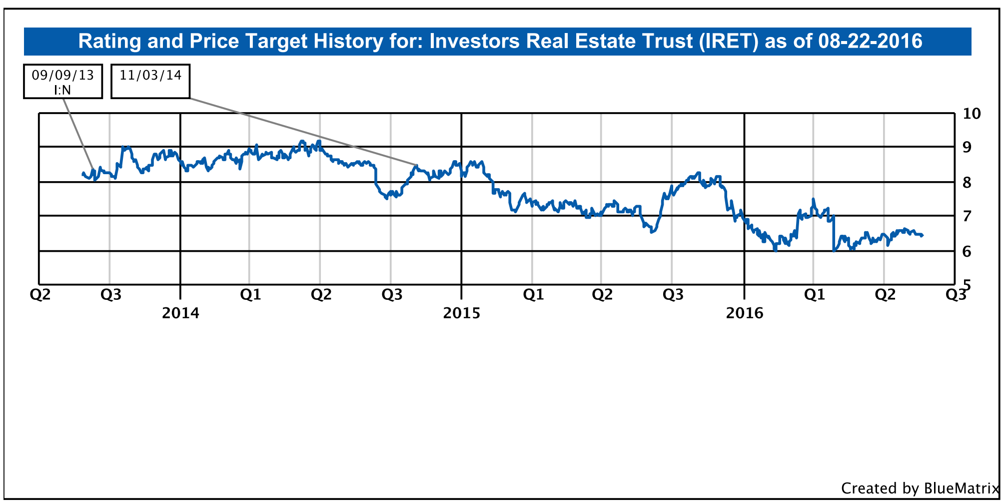
Definition of Ratings

BUY: Janney expects that the subject company will appreciate in value. Additionally, we expect that the subject company will outperform comparable companies within its sector.

NEUTRAL: Janney believes that the subject company is fairly valued and will perform in line with comparable companies within its sector. Investors may add to current positions on short-term weakness and sell on strength as the valuations or fundamentals become more or less attractive.

SELL: Janney expects that the subject company will likely decline in value and will underperform comparable companies within its sector.

Price Charts



Janney Montgomery Scott Ratings Distribution as of 06/30/16

			IB Serv./Past 12 Mos.*	
Rating	**Count**	**Percent**	**Count**	**Percent**
BUY [B]	109	52.15	26	23.85
NEUTRAL [N]	98	46.89	11	11.22
SELL [S]	2	0.95	0	0.00

*Percentages of each rating category where Janney has performed Investment Banking services over the past 12 months.

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