



COMPANY UPDATE / ESTIMATE CHANGES

Key Metrics

IRET - NASDAQ (as of 12/11/2017)	\$5.88
Price Target	N/A
52-Week Range	\$5.60 - \$7.28
Shares & Units Outstanding (mm)	135
Market Cap. (\$mm)	\$794
3-Mo. Average Daily Volume (000)	420
Institutional Ownership	49%
Debt/Total Capitalization (10/17)	51%
Est 3-Year Dividend Growth Rate	0%
Dividend	\$0.28
Dividend Yield	4.8%

FFO Per Share FY End 4/30

	2016	2017	Prior 2018E	Curr. 2018E
1Q	\$0.16	\$0.12		\$0.10A
2Q	\$0.06	\$0.12		\$0.07A
3Q	\$0.40	\$0.09	\$0.08	\$0.09
4Q	\$0.14	\$0.07	\$0.10	\$0.08
Year	\$0.76	\$0.40	\$0.37	\$0.33
P/FFO	7.7x	14.7x		17.8x

Revenue (\$mm)

	2016	2017	Prior 2018E	Curr. 2018E
1Q	\$51	\$50		\$53A
2Q	\$52	\$51		\$54A
3Q	\$56	\$51	\$56	\$53
4Q	\$49	\$54	\$56	\$43
Year	\$188	\$206	\$219	\$203

Quarterly amounts may not add up to full year amounts due to rounding and the timing of dispositions.

Prior to 4Q16, revenue includes TRS senior housing revenue.

Previous numbers have not been restated.

Company Description: *Investors Real Estate Trust, headquartered in Minot, North Dakota, is a REIT focused on the ownership and management of a portfolio of real estate properties.*

REITs

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Investors Real Estate Trust

IRET -- NYSE -- Neutral -- 3

Second Quarter Results

- **Second quarter (ended October 31, 2017) FFO per share were \$0.07 compared to \$0.12 in the year ago period.** 2Q18 results were below our estimate and the consensus view.
- **On June 6, 2016, IRET announced a strategic move to become a pure play multifamily REIT.** The company plans to sell its office and healthcare portfolios. This move should simplify IRET's portfolio, making it easier for investors and analysts to value, in our view. IRET plans to focus on improving margins in the multifamily segment and strengthening the company's balance sheet.
- **IRET has made progress on its strategic plans.** During the quarter, IRET sold several non-core properties for \$63.5 million. Subsequent to quarter end, IRET completed the sale of several additional non-core properties for \$42.1 million and has entered into an agreement to sell 29 additional properties for \$417.5 million.
- **We continue to rate IRET Neutral as we believe the shares are fairly valued at this time.**

**Note Important Disclosures on Pages 6 and 7.
Note Analyst Certification on Page 6.**

Additional Discussion

The company reported fiscal 2Q18 total real estate revenue of \$53.9 million, 6.5% above the year ago period (please see quarterly income statement on page 3). Real estate NOI (net operating income) declined 1.4% to \$28.6 million. Occupancy was up in the same store multifamily portfolio. Net income available to common shareholders (after noncontrolling interests and dividends to its preferred shareholders) was \$6.4 million, compared to \$8.7 million in the year ago period.

Funds from operations (FFO), which exclude real estate gains and losses, were \$9.5 million versus \$16.5 million. FFO per share were \$0.07, compared to \$0.12 per share in the year ago period, on a 1.9% reduction in shares and units outstanding. FFO per share was negatively impacted by higher real estate expenses and cost associated with preferred share redemption.

Balance Sheet - At quarter end, total debt to total market capitalization was 51.1%, whereas debt to total assets was 58.2%. IRET's debt service coverage ratio (for the three months ended 10/31/2017) of 1.84x appears adequate, in our opinion. Most of IRET's debt (64.0%) is fixed rate debt. As of October 31, 2017, the weighted average interest rate on its debt was 4.22%. IRET has \$10.8 million and \$64.8 million of debt maturing in fiscal 2018 and fiscal 2019, respectively (including mortgages held for sale). As of October 31, 2017, IRET had approximately \$247.5 million outstanding on its revolving line of credit.

Segment Analysis

Fiscal 2018 Second Quarter Segment Analysis (in thousands)					
	Residential	Medical	All Other	Corporate & Other	Total
Total Revenue	\$39,734	\$11,449	\$2,738		\$53,921
% of Total Revenue	73.7%	21.2%	5.1%	0.0%	100.0%
Total Real Estate Operating Expenses	\$18,888	\$4,373	\$698	\$1,338	\$25,297
% of Total Expenses	74.7%	17.3%	2.8%	5.3%	100.0%
% of Segment Revenue	47.5%	38.2%	25.5%		46.9%
Total NOI (Net Operating Income)	\$20,846	\$7,076	\$2,040	(\$1,338)	\$28,624
% of Segment Revenue	52.5%	61.8%	74.5%		53.1%

Fiscal 2017 Second Quarter Segment Analysis (in thousands)					
	Residential	Medical	All Other	Corporate & Other	Total
Total Revenue	\$36,187	\$11,661	\$2,761		\$50,609
% of Total Revenue	71.5%	23.0%	5.5%	0.0%	100.0%
Total Real Estate Operating Expenses	\$15,566	\$4,151	\$730	\$1,126	\$21,573
% of Total Expenses	72.2%	19.2%	3.4%	5.2%	100.0%
% of Segment Revenue	43.0%	35.6%	26.4%		42.6%
Total NOI (Net Operating Income)	\$20,621	\$7,510	\$2,031	(\$1,126)	\$29,036
% of Segment Revenue	57.0%	64.4%	73.6%		57.4%

Note: April fiscal year

Source: Company reports

Quarterly Income Statement

April fiscal year

(in thousands, except per share data)	2Q18	2Q17	% Change
Real Estate Revenue	\$53,921	\$50,609	6.5%
Real Estate Expenses	25,297	21,573	17.3%
Real Estate NOI	28,624	29,036	-1.4%
Interest Expense	9,666	10,626	-9.0%
Real Estate Depreciation and Amortization	20,694	13,531	52.9%
Administrative Expenses	3,118	3,522	-11.5%
Advisory and Trustee Services			
Acquisitions and Investment Related Costs			
Other Operating Expenses			
Non-Real Estate Amortization			
Impairment of Real Estate Investment			
Operating Income (Loss)	(4,854)	1,357	
Gain on Involuntary Conversion			
Interest Income	256	93	175.3%
Other Income			
(Loss) on Extinguishment of Debt	(334)		
Income Tax Benefit			
Gain (Loss) on Sale of Real Estate and Other Investments	5,324	(103)	
Gain on Bargain Purchase			
Net Income (Loss) Attributable to Noncontrolling Interests - RE	455	484	-6.0%
Net Income Attributable to Noncontrolling Interests - OP*	(773)	(1,174)	
Income (Loss) before Discontinued Operations	74	657	-88.7%
Discontinued Operations	12,747	10,943	16.5%
Net Income (Loss)	12,821	11,600	10.5%
Redemption of Preferred Shares	(3,649)		
Dividends to Preferred Shareholders	(2,812)	(2,878)	
Net Income (Loss) Available to Common Shareholders	\$6,360	\$8,722	-27.1%
EPS	\$0.05	\$0.07	-28.6%
Weighted Average Common Shares	120,144	121,154	-0.8%

Funds From Operations	2Q18	2Q17	% Change
Net Income (Loss) Available to Common Shareholders	\$6,360	\$8,722	-27.1%
Depreciation and Amortization	19,894	12,971	53.4%
Noncontrolling Interest - OP*	773	1,174	-34.2%
Impairment of Real Estate Investment			
(Gain) Loss on Depreciable Property Sales	(17,562)	(6,400)	
Funds From Operations	\$9,465	\$16,467	-42.5%
FFO Per Share	\$0.07	\$0.12	-41.7%
Weighted Average Common Shares and Units	134,767	137,418	-1.9%

*OP refers to operating units.

2017 results have been restated.

Source: Company reports

Additional Discussion Continued

Strategic Move - On June 6, 2016, IRET announced a strategic move to become a pure play multifamily REIT. The company plans to sell its office and healthcare portfolios. This move should simplify IRET's portfolio, making it easier for investors and analysts to value, in our view. IRET plans to focus on improving margins in the multifamily segment and strengthening the company's balance sheet. Proceeds from these potential asset sales will likely be used to reduce debt and fund multifamily acquisitions.

Acquisitions & Dispositions - In September, IRET acquired Park Place Apartments in Plymouth Minnesota for \$92.3 million. Plymouth is the third largest suburb of the Minneapolis - Saint Paul MSA. IRET sold several non-core properties during the quarter for a total of \$63.5 million.

Subsequent to the end of the quarter, IRET purchased one multifamily community in Denver for \$90.6 million and completed the sale of several non-core properties for \$42.1 million. This is IRET's first apartment community in the Denver market. In November, IRET entered into an agreement to sell its medical office portfolio and one office property for \$417.5 million. This includes the company's entire healthcare portfolio. If customary contingencies are satisfactory the deal is expected to close by the end of January 2018.

Redemption & Offering - In September, IRET priced a public offering of 6.625% Series C Cumulative Redeemable Preferred Shares (IRET.C - \$25.89). Net proceeds of \$103.0 million and were used to redeem the company's 7.95% Series B Cumulative Redeemable Preferred Shares.

Share Repurchase - In 2Q18, IRET repurchased 398,000 common shares and redeemed 40,000 units for \$2.6 million.

Financials - IRET recently increased the commitments under its unsecured line of credit by \$50 million and obtained a \$70 million unsecured term loan.

Outlook - IRET continues to work towards becoming a pure play multifamily REIT. While we think this is a good direction for IRET, we believe earnings could be lumpy in the near term. The timing between asset sales and the redeployment of sales proceeds could impact earnings.

Valuation

At 17.8x our forward 2018 FFO forecast, Investors Real Estate Trust is selling at a premium to a select group of “Diversified” REITs as defined by NAREIT, at a discount to the S&P 500, and at a premium to its median historic five year forward price/FFO multiple. Once the sale of the medical office portfolio is completed we will compare IRET to a group of multifamily REITs, which currently trade at a slightly higher multiple than the peer group we compare IRET to now. We are impressed with the progress IRET has made so far on its transformation strategy. We believe IRET’s shares are fairly valued at this time and rate the stock Neutral. Investors should note that most REITs are on a calendar year, so IRET’s April fiscal year end may distort valuation comparisons.

Diversified REITs	Symbol	Closing Price	Current	Yield	Payout Ratio	FFO Per Share			2-Year Exp.	18/17	Price/FFO	
		12/11/2017	Dividend			2016	2017E	2018E	Average Growth	Growth Rate	2017E	2018E
Vorando Realty Trust	VNO	\$77.01	\$2.40	3.1%	61.1%	\$7.68	\$3.93	\$3.95	-24.3%	0.5%	19.6x	19.5x
Lexington Realty Trust	LXP	\$10.05	\$0.71	7.1%	74.0%	\$1.10	\$0.96	\$1.01	-4.1%	5.2%	10.5x	10.0x
Cousins Properties, Inc.	CUZ	\$9.42	\$0.24	2.5%	39.3%	\$0.72	\$0.61	\$0.63	-6.3%	3.3%	15.4x	15.0x
Washington Real Estate Investment	WRE	\$31.70	\$1.20	3.8%	65.9%	\$1.76	\$1.82	\$1.86	2.8%	2.2%	17.4x	17.0x
Peer Average		\$32.05	\$1.14	4.1%	60.1%	\$2.82	\$1.83	\$1.86	-7.9%	2.8%	15.7x	15.4x
S&P 500	.SPX	2,659.99	\$50.18	1.9%	38.4%	\$117.75	\$130.77	\$141.46	10.1%	8.2%	20.3x	18.8x
Investors Real Estate Trust	IRET	\$5.88	\$0.28	4.8%	70.0%	\$0.76	\$0.40	\$0.33	-28.3%	-17.5%	14.7x	17.8x
FFO Adjusted Forward	IRET					\$0.40	\$0.33	\$0.33	-8.8%	0.0%	17.8x	17.8x

Note: IRET is on an April fiscal year, while the rest are on a calendar fiscal year. The results are not completely comparable. FFO adjusted forward refers to the fiscal year that ends the following April.

2017 FFO per share for IRET is actual FFO per share, not estimated.

Source: NAREIT, HL Estimates, and Thomson Eikon.

Dividend - The company currently pays a \$0.07 per share quarterly common share dividend.

Suitability

We assign shares of Investors Real Estate Trust a suitability rating of 3 on our scale of 1 - 4 (1=most conservative, 4=most aggressive). Our rating is based on the company’s higher leverage and small market cap, offset somewhat by property type diversification.

Risks and Considerations

Interest Rate Risk - Like all REITs, IRET is interest rate sensitive. The company’s debt to total market capitalization is 51.1%. However, with a majority of total debt at fixed rates (at the end of the second quarter), we believe IRET would be able to weather an increase in interest expense in a rising rate environment.

Economic Risk Due to Geographic Concentration - IRET’s real estate portfolio is highly concentrated in the two states of Minnesota and North Dakota. The local economy would not be immune if the national economy were to experience a marked slowdown in consumer spending as a result of a residential housing problem or by other forces beyond IRET’s control, including a significant change in oil prices.

Other Risk - General economic uncertainty, an increase in apartment move-outs, an increase in home buying, acquisition or dispositions taking longer than anticipated, etc.

Additional information is available upon request.

Analyst Certification

I, Carol L. Kemple, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company(ies) and its (their) securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this report.

Important Disclosures

Hilliard Lyons' analysts receive bonus compensation based on Hilliard Lyons' profitability. They do not receive direct payments from investment banking activity.

Hilliard Lyons acted as a manager or co-manager of an offering of securities of Investor Real Estate Trust in the past 12 months.

Hilliard Lyons expects to receive investment banking compensation from Investors Real Estate Trust in the coming 3 months.

Investment Ratings

Buy - We believe the stock has significant total return potential in the coming 12 months.

Long-term Buy - We believe the stock is an above average holding in its sector, and expect solid total returns to be realized over a longer time frame than our Buy rated issues, typically 2-3 years.

Neutral - We believe the stock is an average holding in its sector, is currently fully valued, and may be used as a source of funds if better opportunities arise.

Underperform - We believe the stock is vulnerable to a price decline in the next 12 months.

Suitability Ratings

1 - A large cap, core holding with a solid history

2 - A historically secure company which could be cyclical, has a shorter history than a "1" or is subject to event driven setbacks

3 - An above average risk/reward ratio could be due to small size, lack of product diversity, sporadic earnings or high leverage

4 - Speculative, due to small size, inconsistent profitability, erratic revenue, volatility, low trading volume or a narrow customer or product base



	Hilliard Lyons Recommended Issues		Investment Banking Provided in Past 12 Mo.	
	# of Stocks Covered	% of Stocks Covered	Banking	No Banking
Rating				
Buy	31	28%	13%	87%
Hold/Neutral	74	66%	9%	91%
Sell	7	6%	0%	100%

As of 6 December 2017

Other Disclosures

Opinions expressed are subject to change without notice and do not take into account the particular investment objectives, financial situation or needs of individual investors. Employees of J.J.B. Hilliard, W.L. Lyons, LLC or its affiliates may, at times, release written or oral commentary, technical analysis or trading strategies that differ from the opinions expressed here.

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