



COMPANY UPDATE / ESTIMATE CHANGES

Key Metrics

IRET - NASDAQ (as of 6/28/2017)	\$6.12
Price Target	N/A
52-Week Range	\$5.60 - \$7.28
Shares & Units Outstanding (mm)	137
Market Cap. (\$mm)	\$838
3-Mo. Average Daily Volume (000)	464
Institutional Ownership	54%
Debt/Total Market Capital (4/17)	46%
Est 3-Year Dividend Growth Rate	0%
Dividend	\$0.28
Dividend Yield	4.6%

FFO Per Share FY End 4/30

	2016	2017	Prior 2018E	Curr. 2018E
1Q	\$0.16	\$0.12		\$0.08
2Q	\$0.06	\$0.12		\$0.09
3Q	\$0.40	\$0.09		\$0.08
4Q	\$0.14	\$0.07		\$0.10
Year	\$0.76	\$0.40		\$0.35
P/FFO	8.1x	15.3x		17.5x

Revenue (\$mm)

	2016	2017	Prior 2018E	Curr. 2018E
1Q	\$51	\$50		\$51
2Q	\$52	\$51		\$51
3Q	\$56	\$51		\$53
4Q	\$49	\$54		\$52
Year	\$188	\$206		\$207

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

Fourth Quarter Results

- **Fourth quarter (ended April 30, 2017) FFO per share were \$0.07 compared to \$0.14 in the year ago period.** 4Q17 results were below ours and the consensus estimates. Excluding one-time items, FFO would have been \$0.11 per share.
- **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 its balance sheet.
- **IRET has made progress on its strategic plans.** During the quarter, IRET sold 19 senior housing properties, two medical office properties, and one multifamily community for a total sales price of \$155.4 million.
- **We continue to rate IRET Neutral as we believe the shares are fairly valued at this time.**

**Note Important Disclosures on Pages 7 and 8.
Note Analyst Certification on Page 7.**

Additional Discussion

The company reported fiscal 4Q17 total real estate revenue of \$54.3 million, 12.0% above the year ago period (please see quarterly income statement on page 3). Rental income, which comprised 91.5% of total real estate revenue, increased 12.8% to \$49.7 million from \$44.1 million. Tenant reimbursements increased 3.8% year-over-year and represented 20.7% of total real estate operating expenses compared to 21.7% last year. We expect this number to decline as the portfolio becomes more heavily weighted in multifamily properties, as apartment renters do not pay reimbursements.

Real estate NOI (net operating income) increased 14.3% to \$32.0 million. Occupancy was up in both the multifamily portfolio and the healthcare portfolio. Net income available to common shareholders (after noncontrolling interests and dividends to its preferred shareholders) was \$28.0 million, compared to \$8.1 million in the year ago period.

Funds from operations (FFO), which exclude real estate gains, were \$10.2 million versus \$19.2 million. FFO per share were \$0.07, compared to \$0.14 per share in the year ago period, on a 0.4% increase in shares and units outstanding.

Balance Sheet - At quarter end, total debt to total market capitalization was 46.3%, whereas debt to total assets was 50.8% (please see balance sheet on page 4). IRET's debt service coverage ratio (for the three months ended 4/30/2017) of 1.69x appears adequate, in our opinion. Most of IRET's debt is fixed rate debt. As of April 30, 2017, the weighted average interest rate on its mortgage debt was 4.63%. IRET has \$63.0 million and \$38.2 million of debt maturing in fiscal 2018 and fiscal 2019, respectively (including mortgages held for sale). As of April 30, 2017, IRET had approximately \$57.1 million outstanding on its revolving line of credit.

Segment Analysis

Fiscal 2017 Fourth Quarter Segment Analysis (in thousands)					
	Residential	Medical	All Other	Corporate & Other	Total
Total Revenue	\$37,185	\$14,554	\$2,605		\$54,344
% of Total Revenue	68.4%	26.8%	4.8%	0.0%	100.0%
Total Real Estate Operating Expenses	\$16,511	\$3,860	\$729	\$1,255	\$22,355
% of Total Expenses	73.9%	17.3%	3.3%	5.6%	100.0%
% of Segment Revenue	44.4%	26.5%	28.0%		41.1%
Total NOI (Net Operating Income)	\$20,674	\$10,694	\$1,876	(\$1,255)	\$31,989
% of Segment Revenue	55.6%	73.5%	72.0%		58.9%

Fiscal 2016 Fourth Quarter Segment Analysis (in thousands)					
	Residential	Medical	All Other	Corporate & Other	Total
Total Revenue	\$34,116	\$11,632	\$2,775		\$48,523
% of Total Revenue	70.3%	24.0%	5.7%	0.0%	100.0%
Total Real Estate Operating Expenses	\$14,935	\$4,152	\$638	\$799	\$20,524
% of Total Expenses	72.8%	20.2%	3.1%	3.9%	100.0%
% of Segment Revenue	43.8%	35.7%	23.0%		42.3%
Total NOI (Net Operating Income)	\$19,181	\$7,480	\$2,137	(\$799)	\$27,999
% of Segment Revenue	56.2%	64.3%	77.0%		57.7%

Note: April fiscal year

Source: Company reports

Quarterly Income Statement

April fiscal year

(in thousands, except per share data)	4Q17	4Q16	% Change
Real Estate Rentals	\$49,715	\$44,065	12.8%
Tenant Reimbursements	4,629	4,458	3.8%
Total Real Estate Revenue	54,344	48,523	12.0%
Property Operating Expenses, Excluding Real Estate Taxes	15,863	14,907	6.4%
Real Estate Taxes	6,492	5,617	15.6%
Total Real Estate Expenses	22,355	20,524	8.9%
Real Estate NOI	31,989	27,999	14.3%
Interest Expense	9,457	10,062	-6.0%
Real Estate Depreciation and Amortization	13,736	13,517	1.6%
Administrative Expenses	3,637	2,951	23.2%
Advisory and Trustee Services			
Acquisitions and Investment Related Costs	3,224	397	
Other Operating Expenses	1,091	950	
Non-Real Estate Amortization			
Impairment of Real Estate Investment	2,875	2,223	
Operating Income (Loss)	(2,031)	(2,101)	
Gain on Involuntary Conversion			
Interest Income	13	26	-50.0%
Other Income	452	31	
(Loss) on Extinguishment of Debt	(1,192)		
Income Tax Benefit			
Gain (Loss) on Sale of Real Estate and Other Investments	7,409	8,369	
Gain on Bargain Purchase		3,424	
Net Income (Loss) Attributable to Noncontrolling Interests - RE	296	340	-12.9%
Net Income Attributable to Noncontrolling Interests - OP*	(3,656)	(1,092)	
Income (Loss) before Discontinued Operations	1,291	8,997	
Discontinued Operations	28,989	2,006	
Net Income (Loss)	30,280	11,003	175.2%
Redemption of Preferred Shares			
Dividends to Preferred Shareholders	(2,286)	(2,878)	
Net Income (Loss) Available to Common Shareholders	\$27,994	\$8,125	244.5%
EPS	\$0.23	\$0.07	228.6%
Weighted Average Common Shares	121,155	120,943	0.2%

Funds From Operations	4Q17	4Q16	% Change
Net Income (Loss) Available to Common Shareholders	\$27,994	\$8,125	244.5%
Depreciation and Amortization	13,222	15,694	-15.8%
Noncontrolling Interest - OP*	3,656	1,092	234.8%
Impairment of Real Estate Investment	2,875	2,223	
(Gain) Loss on Depreciable Property Sales	(37,517)	(7,910)	
Funds From Operations	\$10,230	\$19,224	-46.8%
FFO Per Share	\$0.07	\$0.14	-50.0%
Weighted Average Common Shares and Units	136,952	136,438	0.4%

*OP refers to operating units.

2016 results have been restated.

Source: Company reports

Condensed Balance Sheet

April fiscal year

(in thousands)	30-Apr-15	30-Apr-16	30-Apr-17
Property Owned	\$2,098,037	\$1,681,471	\$1,677,481
Less Accumulated Depreciation	(448,987)	(312,889)	(340,417)
	\$1,649,050	\$1,368,582	\$1,337,064
Development in Progress	153,994	51,681	
Unimproved Land	25,827	20,939	18,455
Mortgage Loan Receivable (net)			
Net Real Estate Investments	\$1,828,871	\$1,441,202	\$1,355,519
Real Estate Held for Sale, Etc.	22,912	220,761	37,708
Cash and Cash Equivalents	48,970	66,698	28,819
Restricted Cash			
Marketable Securities	329	50	
Receivables - Straight-lining of Rents	26,211	7,179	7,822
Accounts Receivable	3,675	1,524	2,600
Real Estate Deposits	2,489	0	23,659
Prepaid and Other Assets	3,907	2,937	3,131
Intangible Assets (net)	27,267	1,858	658
Tax, Insurance, and Other Escrow	11,249	5,450	5,050
Property and Equipment (net)	1,542	1,011	901
Goodwill	1,911	1,680	1,572
Deferred Charges and Leasing Costs (net)	18,504	9,827	7,075
Total Assets	\$1,997,837	\$1,760,177	\$1,474,514
Liabilities Held for Sale		\$77,712	\$30,062
Revolving Line of Credit	\$60,500	\$17,500	\$57,050
Mortgage Payable	\$974,828	\$817,324	\$661,960
Accounts Payable and Accrued Expenses	71,072	39,727	40,350
Other Liabilities	144,115	82,130	41,817
Total Liabilities	\$1,250,515	\$1,034,393	\$831,239
Commitments and Contingencies			
Redeemable Noncontrolling Interests - Consolidated RE Entities		7,522	7,181
Preferred Shares	138,674	138,674	111,357
Common Shares	951,868	922,084	916,121
Accumulated Distributions in Excess of Net Income	(438,432)	(442,000)	(466,541)
Total Shareholders' Equity	\$652,110	\$618,758	\$560,937
Noncontrolling Interests - Consolidated Real Estate Entities	36,887	21,020	1,924
Noncontrolling Interests - OP	58,325	78,484	73,233
Total Equity	\$747,322	\$718,262	\$636,094
Total Liabilities and Shareholders' Equity	\$1,997,837	\$1,760,177	\$1,474,514

Balance Sheet Ratio Analysis	30-Apr-15	30-Apr-16	30-Apr-17
Total R/E Investments / Total Debt	176.6%	157.9%	181.0%
Debt to Equity	138.5%	127.0%	117.8%
Debt as % of Total Assets	51.8%	51.8%	50.8%
Shareholders' Equity as % of Total Assets	32.6%	35.2%	38.0%

Previous numbers have not 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 its balance sheet. Any proceeds from these potential asset sales will likely be used to reduce debt and fund multifamily acquisitions.

Acquisitions & Dispositions - During the quarter, IRET sold 19 senior housing properties, two medical office properties, and one multifamily community for a total sales price of \$155.4 million. Proceeds after debt repayment were \$126.2 million. In May, IRET purchased the 191 unit Oxbo Apartments in St. Paul, Minnesota for \$61.5 million. Amenities include fitness club, rooftop pool deck, indoor parking, dog wash station, etc. The building contains nearly 12,000 square feet of street level retail. Subsequent to year end, IRET sold one retail property for \$3.4 million.

Developments - As of April 30, IRET has completed all of its planned developments. We do not expect IRET to start any new development projects in the near term.

Share Repurchase - In December 2016, the Board authorized a share repurchase program of up to \$50 million of common or preferred shares, which expires December 2017. In fiscal 2017, IRET repurchased 778,000 common shares at an average price of \$5.77. Subsequent to April 30, 2017, IRET has repurchased 649,000 common shares at an average price of \$5.75 through June 22, 2017. During fiscal 2017, IRET redeemed 165,000 units at an average price of \$5.84 per unit. Subsequent to fiscal year end, IRET redeemed an additional 409,000 units at an average price of \$5.92 per share through June 22, 2017.

Management Changes - During the quarter, IRET announced several leadership changes. Tim Mihalick, who recently served as CEO of IRET, has retired. Mark Decker Jr. was promoted to CEO, in addition to his current position of President. Jeffrey Caira was appointed as the new Chairman of the Board. The former chairman, Jeffrey Miller, will continue to serve as a board member. Diane Bryantt, who served as Executive Vice President & COO, has retired. John Kirchmann and Anne Olson have been appointed to CFO and General Counsel and Corporate Secretary, respectively. The COO and CIO positions will be handled by senior executives at IRET.

Outlook - IRET is working towards becoming a pure play multifamily REIT. While we think this 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 will impact earnings.

Valuation

At 16.1x 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. 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 6/28/2017	Current Dividend	Yield	Payout Ratio	FFO Per Share			2-Year Exp. Average Growth	18/17 Growth Rate	Price/FFO	
						2016	2017E	2018E			2017E	2018E
Vorando Realty Trust	VNO	\$93.51	\$2.84	3.0%	57.5%	\$7.68	\$4.94	\$5.28	-15.6%	6.9%	18.9x	17.7x
Lexington Realty Trust	LXP	\$10.09	\$0.70	6.9%	72.9%	\$1.10	\$0.96	\$1.01	-4.1%	5.2%	10.5x	10.0x
Cousins Properties, Inc.	CUZ	\$8.96	\$0.24	2.7%	39.3%	\$0.72	\$0.61	\$0.65	-4.9%	6.6%	14.7x	13.8x
Washington Real Estate Investment	WRE	\$32.42	\$1.20	3.7%	66.3%	\$1.76	\$1.81	\$1.87	3.1%	3.3%	17.9x	17.3x
Peer Average		\$36.25	\$1.25	4.1%	59.0%	\$2.82	\$2.08	\$2.20	-5.4%	5.5%	15.5x	14.7x
S&P 500	.SPX	\$2,440.69	\$48.66	2.0%	37.5%	\$117.75	\$129.91	\$140.06	9.5%	7.8%	18.8x	17.4x
Investors Real Estate Trust	IRET	\$6.12	\$0.28	4.6%	70.0%	\$0.76	\$0.40	\$0.35	-27.0%	-12.5%	15.3x	17.5x
FFO Adjusted Forward	IRET					\$0.40	\$0.35	\$0.38	-2.5%	8.6%	17.5x	16.1x

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.
 SPX figures are EPS not FFO per share.

Source: NAREIT, HL Estimates, and Thomson Eikon.

Dividend - The company 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 46.3%. However, with a majority of total debt at fixed rates (at the end of the fourth 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.

As of June 28, 2017 Hilliard Lyons and/or its affiliates beneficially owned (as defined for purposes of Section 13d of the 1934 Act) 1% or more of Investors Real Estate Trust pfd B 7.95% (IRET.B - \$25.12).

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.

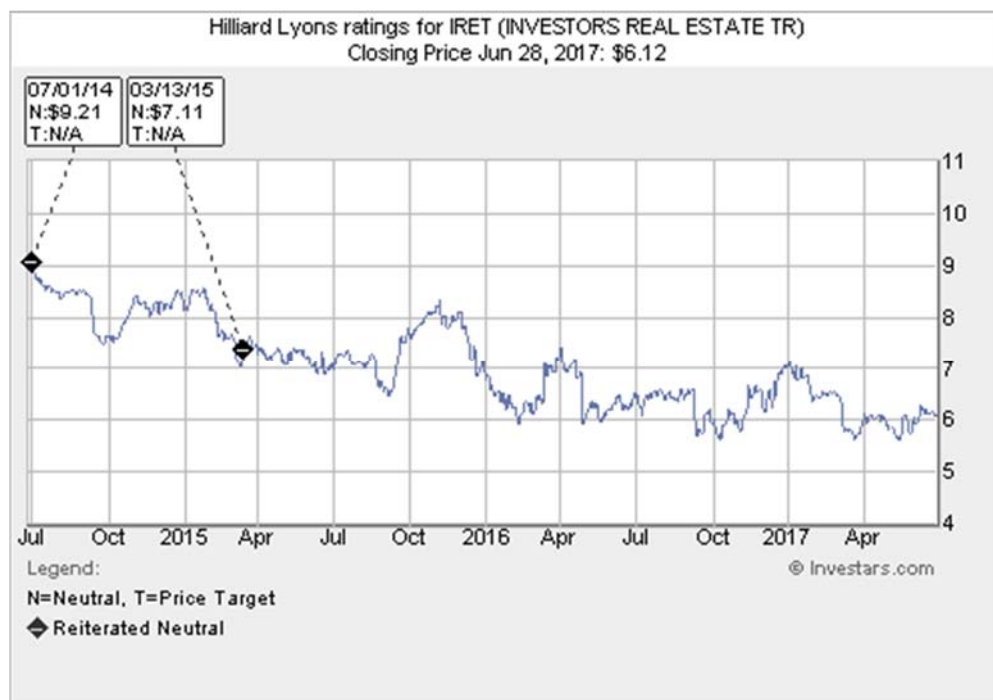
Suitability Ratings

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



Rating	Hilliard Lyons Recommended Issues		Investment Banking Provided in Past 12 Mo.	
	# of Stocks Covered	% of Stocks Covered	Banking	No Banking
Buy	34	27%	12%	88%
Hold/Neutral	80	65%	8%	93%
Sell	10	8%	0%	100%

As of 7 June 2017

Other Disclosures

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