



COMPANY UPDATE / ESTIMATE CHANGES

Key Metrics

IRET - NASDAQ (as of 3/13/2017)	\$5.88
Price Target	N/A
52-Week Range	\$5.60 - \$7.51
Shares & Units Outstanding (mm)	138
Market Cap. (\$mm)	\$811
3-Mo. Average Daily Volume (000)	436.2
Institutional Ownership	54%
Debt/Total Market Capital (1/17)	49%
Est 3-Year Dividend Growth Rate	0%
Dividend	\$0.28
Dividend Yield	4.8%

FFO Per Share FY End 4/30

	2015	2016	Prior 2017E	Curr. 2017E
1Q	\$0.14	\$0.16		\$0.12A
2Q	\$0.17	\$0.06		\$0.12A
3Q	\$0.17	\$0.40	\$0.13	\$0.09A
4Q	\$0.16	\$0.14	\$0.12	\$0.08
Year	\$0.64	\$0.76	\$0.49	\$0.41
P/FFO	9.2x	7.7x		14.3x

Revenue (\$mm)

	2015	2016	Prior 2017E	Curr. 2017E
1Q	\$69	\$51		\$50A
2Q	\$71	\$52		\$51A
3Q	\$73	\$56	\$55	\$51A
4Q	\$71	\$49	\$54	\$55
Year	\$283	\$188	\$210	\$206

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

Third Quarter Results

- **Third quarter (ended January 31, 2017) FFO per share were \$0.09, compared to \$0.40 in the year ago period.** Both periods included one-time items. 3Q17 results were below ours and the consensus estimates.
- **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.** Since the beginning of calendar year 2017, IRET has sold 23 senior housing properties for total proceed of \$185.5 million, resulting in net proceeds of \$156.1 million. Proceeds were used to reduce debt and fund general corporate purposes, with a portion set aside for a possible 1031 exchange. IRET has also sold a medical office property for \$20.7 million and a retail property for \$4.0 million.
- **Management lowered its fiscal 2017 (April 30, 2017 year end) FFO per share guidance from a range of \$0.48 to \$0.52 to a range of \$0.41 to \$0.43.** We are lowering our fiscal 2017 FFO per share estimate to \$0.41 from \$0.49 previously.
- **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 3Q17 total real estate revenue of \$51.2 million, 5.7% above the year ago period (please see quarterly income statement on page 3). Rental income, which comprised 90.4% of total real estate revenue, increased 5.1% to \$46.3 million from \$44.0 million. Tenant reimbursements increased 11.5% year-over-year and represented 21.5% of total real estate operating expenses compared to 21.6% 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 1.1% to \$28.4 million. Occupancy was up in the multifamily portfolio and down in the healthcare portfolio. Net income available to common shareholders (after noncontrolling interests and dividends to its preferred shareholders) was \$19.2 million, compared to \$36.9 million in the year ago period.

Funds from operations (FFO), which exclude real estate gains, were \$12.7 million versus \$54.5 million. FFO per share were \$0.09, compared to \$0.40 per share in the year ago period, on a 1.2% increase in shares and units outstanding.

Balance Sheet - At quarter end, total debt to total market capitalization was 48.6%, whereas debt to total assets was 55.9% (please see balance sheet on page 4). IRET's debt service coverage ratio (for the three months ended 1/31/2017) of 1.67x appears adequate, in our opinion. Most of IRET's debt is fixed rate debt. As of January 31, 2017, the weighted average interest rate on its mortgage debt was 4.71%. IRET has \$38.7 million and \$26.6 million of mortgage debt maturing in fiscal 2017 and fiscal 2018, respectively (including mortgages held for sale). As of January 31, 2017, IRET had approximately \$157.0 million outstanding on its revolving line of credit.

Fiscal 2017 Third Quarter Segment Analysis (in thousands)					
	Residential	Medical	All Other	Corporate & Other	Total
Total Revenue	\$36,269	\$12,099	\$2,806		\$51,174
% of Total Revenue	70.9%	23.6%	5.5%	0.0%	100.0%
Total Real Estate Operating Expenses	\$16,336	\$4,216	\$838	\$1,403	\$22,793
% of Total Expenses	71.7%	18.5%	3.7%	6.2%	100.0%
% of Segment Revenue	45.0%	34.8%	29.9%		44.5%
Total NOI (Net Operating Income)	\$19,933	\$7,883	\$1,968	-\$1,403	\$28,381
% of Segment Revenue	55.0%	65.2%	70.1%		55.5%

Fiscal 2016 Third Quarter Segment Analysis (in thousands)					
	Residential	Medical	All Other	Corporate & Other	Total
Total Revenue	\$33,425	\$11,859	\$3,122		\$48,406
% of Total Revenue	69.1%	24.5%	6.4%	0.0%	100.0%
Total Real Estate Operating Expenses	\$14,564	\$3,971	\$634	\$1,152	\$20,321
% of Total Expenses	71.7%	19.5%	3.1%	5.7%	100.0%
% of Segment Revenue	43.6%	33.5%	20.3%		42.0%
Total NOI (Net Operating Income)	\$18,861	\$7,888	\$2,488	-\$1,152	\$28,085
% of Segment Revenue	56.4%	66.5%	79.7%		58.0%

Note: April fiscal year

Source: Company reports

Quarterly Income Statement

April fiscal year

(in thousands, except per share data)	3Q17	3Q16	% Change
Real Estate Rentals	\$46,278	\$44,015	5.1%
Tenant Reimbursements	4,896	4,391	11.5%
Total Real Estate Revenue	51,174	48,406	5.7%
Property Operating Expenses, Excluding Real Estate Taxes	17,034	15,412	10.5%
Real Estate Taxes	5,759	4,909	17.3%
Total Real Estate Expenses	22,793	20,321	12.2%
Real Estate NOI	28,381	28,085	1.1%
Interest Expense	10,680	9,151	16.7%
Real Estate Depreciation and Amortization	13,475	12,693	6.2%
Administrative Expenses	3,130	2,929	6.9%
Advisory and Trustee Services			
Acquisitions and Investment Related Costs	5	35	
Other Operating Expenses	1,037	51	
Non-Real Estate Amortization			
Impairment of Real Estate Investment		162	
Operating Income (Loss)	54	3,064	
Gain on Involuntary Conversion			
Interest Income	816	566	44.2%
Other Income	158	135	17.0%
(Loss) on Extinguishment of Debt	(1,907)		
Income Tax Benefit			
Gain (Loss) on Sale of Real Estate and Other Investments	2,437	1,446	
Gain on Bargain Purchase			
Net Income (Loss) Attributable to Noncontrolling Interests - RE	446	581	-23.2%
Net Income Attributable to Noncontrolling Interests - OP*	(2,525)	(4,227)	
Income (Loss) before Discontinued Operations	(521)	1,565	
Discontinued Operations	23,631	38,232	-38.2%
Net Income (Loss)	23,110	39,797	-41.9%
Redemption of Preferred Shares	(1,435)		
Dividends to Preferred Shareholders	(2,503)	(2,879)	
Net Income (Loss) Available to Common Shareholders	\$19,172	\$36,918	-48.1%
EPS	\$0.16	\$0.30	-46.7%
Weighted Average Common Shares	121,255	121,864	-0.5%

Funds From Operations	3Q17	3Q16	% Change
Net Income (Loss) Available to Common Shareholders	\$19,172	\$36,918	-48.1%
Depreciation and Amortization	12,933	14,975	-13.6%
Noncontrolling Interest - OP*	2,525	4,227	-40.3%
Impairment of Real Estate Investment		162	
(Gain) Loss on Depreciable Property Sales	(21,972)	(1,777)	
Funds From Operations	\$12,658	\$54,505	-76.8%
FFO Per Share	\$0.09	\$0.40	-77.5%
Weighted Average Common Shares and Units	137,375	135,741	1.2%

*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	31-Jan-17
Property Owned	\$2,098,037	\$1,681,471	\$1,685,823
Less Accumulated Depreciation	(448,987)	(312,889)	(334,875)
	\$1,649,050	\$1,368,582	\$1,350,948
Development in Progress	153,994	51,681	11,531
Unimproved Land	25,827	20,939	19,076
Mortgage Loan Receivable (net)			
Net Real Estate Investments	\$1,828,871	\$1,441,202	\$1,381,555
Real Estate Held for Sale, Etc.	22,912	220,761	140,226
Cash and Cash Equivalents	48,970	66,698	56,999
Restricted Cash			
Marketable Securities	329	50	
Receivables - Straight-lining of Rents	26,211	7,179	7,839
Accounts Receivable	3,675	1,524	3,878
Real Estate Deposits	2,489	0	
Prepaid and Other Assets	3,907	2,937	4,060
Intangible Assets (net)	27,267	1,858	731
Tax, Insurance, and Other Escrow	11,249	5,450	5,724
Property and Equipment (net)	1,542	1,011	915
Goodwill	1,911	1,680	1,645
Deferred Charges and Leasing Costs (net)	18,504	9,827	5,517
Total Assets	\$1,997,837	\$1,760,177	\$1,609,089
Liabilities Held for Sale		\$77,712	\$54,291
Revolving Line of Credit	\$60,500	\$17,500	\$157,000
Mortgage Payable	\$974,828	\$817,324	\$688,424
Accounts Payable and Accrued Expenses	71,072	39,727	41,351
Other Liabilities	144,115	82,130	39,524
Total Liabilities	\$1,250,515	\$1,034,393	\$980,590
Commitments and Contingencies			
Redeemable Noncontrolling Interests - Consolidated RE Entities		7,522	7,300
Preferred Shares	138,674	138,674	111,357
Common Shares	951,868	922,084	921,735
Accumulated Distributions in Excess of Net Income	(438,432)	(442,000)	(486,015)
Total Shareholders' Equity	\$652,110	\$618,758	\$547,077
Noncontrolling Interests - Consolidated Real Estate Entities	36,887	21,020	2,115
Noncontrolling Interests - OP	58,325	78,484	72,007
Total Equity	\$747,322	\$718,262	\$621,199
Total Liabilities and Shareholders' Equity	\$1,997,837	\$1,760,177	\$1,609,089

Balance Sheet Ratio Analysis	30-Apr-15	30-Apr-16	31-Jan-17
Total R/E Investments / Total Debt	176.6%	157.9%	153.6%
Debt to Equity	138.5%	127.0%	144.8%
Debt as % of Total Assets	51.8%	51.8%	55.9%
Shareholders' Equity as % of Total Assets	32.6%	35.2%	34.0%

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 - IRET completed no acquisitions during the quarter. Since the beginning of calendar year 2017, IRET has sold 23 senior housing properties for total proceeds of \$185.5 million, resulting in net proceeds of \$156.1 million. Proceeds were used to reduce debt and fund general corporate purposes, with a portion set aside for a possible 1031 exchange. IRET has also sold a medical office property for \$20.7 million and a retail property for \$4.0 million. IRET has its three remaining senior housing assets under contract for sale.

Developments - As of January 31, IRET had one multifamily property under construction, which is expected to be completed in 4Q17. The anticipated total cost for this project is \$32.1 million. We do not expect IRET to start any new development projects in the near term.

Repositioning - Management believes IRET has several well-located multifamily properties that justify a value add repositioning. Fiscal year to date, IRET has achieved an average rental rate growth of 11.5% on the 993 units it has refreshed. Management believes this program can continue for two years.

Credit Line - On January 31, IRET entered into a new unsecured \$250 million revolving credit facility. The facility has a four year initial term and one year extension option, and a \$250 million accordion feature. Interest on the facility will be based on grid pricing either of the Lender's Base Rate plus 60 to 125 basis points or of LIBOR plus 160 to 225 basis points, based on corporate leverage.

Preferred Shares - On December 2, 2016, IRET redeemed all of its outstanding Preferred A Shares. A charge related to the redemption of these shares was taken in 3Q17.

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. No shares were purchased in 3Q17.

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.

Guidance - Management lowered its 2017 (April 30, 2017 fiscal year end) FFO per share guidance from a range of \$0.48 - \$0.52 to a range of \$0.41 - \$0.43. Guidance does not include the impact of any future acquisitions, developments, dispositions or capital market activity. Same store multifamily NOI growth is expected to be (4%) - (6%). Our 2017 FFO per share estimate is \$0.41.

Valuation

At 14.3x our 2017 FFO forecast, Investors Real Estate Trust is selling at a discount to a select group of “Diversified” REITs as defined by NAREIT and to the S&P 500, but at a premium to its median historic five year forward price/ffo multiple of 12.7x. We are impressed with the progress IRET has made so far on its transformation strategy, but believe its multifamily properties in energy impacted markets may continue to struggle. 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	2017E		FFO Per Share			2-Year Exp.	17/16E	Price/FFO	
		3/13/2017	Dividend	Yield	Payout Ratio	2015	2016	2017E	Average Growth	Growth Rate	2016	2017E
Vorando Realty Trust	VNO	\$102.79	\$2.84	2.8%	53.0%	\$4.50	\$6.91	\$5.36	9.6%	-22.4%	14.9x	19.2x
Lexington Realty Trust	LXP	\$9.95	\$0.70	7.0%	72.2%	\$0.96	\$0.92	\$0.97	0.5%	5.4%	10.8x	10.3x
Cousins Properties, Inc.	CUZ	\$8.02	\$0.24	3.0%	40.0%	\$0.89	\$0.80	\$0.60	-16.3%	-25.0%	10.0x	13.4x
Washington Real Estate Investment	WRE	\$30.15	\$1.20	4.0%	67.4%	\$1.71	\$1.40	\$1.78	2.0%	27.1%	21.5x	16.9x
Peer Average		\$37.73	\$1.25	4.2%	58.1%	\$2.02	\$2.51	\$2.18	-1.0%	-3.7%	14.3x	14.9x
S&P 500	SPX	2373.47	\$48.08	2.0%	37.1%	\$118.23	\$116.75	\$129.45	4.7%	10.9%	20.3x	18.3x
Investors Real Estate Trust	IRET	\$5.88	\$0.28	4.8%	68.3%	\$0.64	\$0.76	\$0.41	-18.0%	-46.1%	7.7x	14.3x
FFO Adjusted Forward	IRET					\$0.76	\$0.41	\$0.41	-23.0%	0.0%	14.3x	14.3x

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.
 2016 FFO per share for IRET is actual FFO per share, not estimated.
 SPX figures are EPS not FFO per share.

Source: NAREIT, Baseline, and Hilliard Lyons' estimates

Dividend - In the 2Q17 earnings release the company introduced a new quarterly common share dividend of \$0.07 per share (started in 3Q17), down from \$0.13 per share previously. IRET also paid a one-time special dividend of \$0.06 per share in 3Q17.

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 48.6%. However, with a majority of total debt at fixed rates (at the end of the third 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 March 13, 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 - \$25.60).

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.

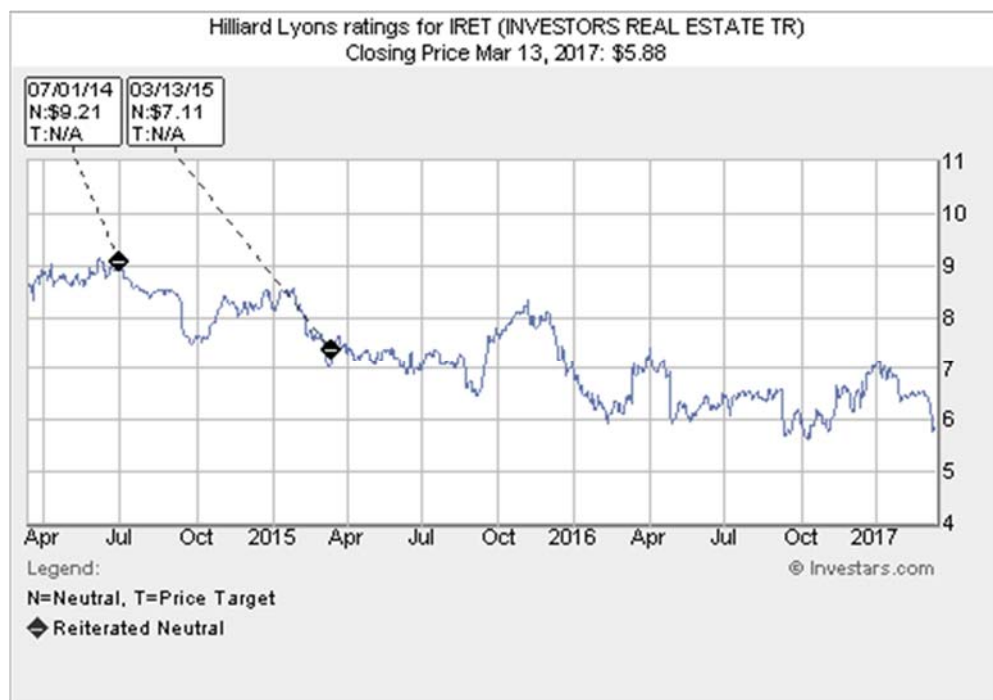
Suitability Ratings

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	35	29%	14%	86%
Hold/Neutral	71	59%	6%	94%
Sell	15	12%	7%	93%

As of 8 March 2017

Other Disclosures

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