INVESTORS REAL ESTATE TRUST
Form 10-Q
December 11, 2017
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended October 31, 2017

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ____________ to ____________

Commission File Number 001-35624

INVESTORS REAL ESTATE TRUST

(Exact name of registrant as specified in its charter)

North Dakota	45-0311232
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1400 31st Avenue SW, Suite 60, Post Office Box 1988, Minot, ND 58702-1988
(Address of principal executive offices) (Zip code)

(701) 837-4738

(Registrant's telephone number, including area code)

N/A

(Former name, former address, and former fiscal year, if changed since last report.)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to the filing requirements for at least the past 90 days.

YesNo

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

YesNo

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	Accelerated filer	Non-accelerated filer	Smaller Reporting Company	Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YesNo

The number of common shares of beneficial interest outstanding as of December 4, 2017, was 120,037,183.

Table of Contents

TABLE OF CONTENTS

Table of Contents

PART I

ITEM 1. FINANCIAL STATEMENTS - SECOND QUARTER - FISCAL 2018

INVESTORS REAL ESTATE TRUST AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS (unaudited)

	(in thousands) October 31, 2017	April 30, 2017
ASSETS		
Real estate investments		
Property owned	$ 1,831,181	$ 1,677,481
Less accumulated depreciation	(384,402)	(340,417)
	1,446,779	1,337,064
Unimproved land	15,216	18,455
Mortgage loans receivable	10,329	—
Total real estate investments	1,472,324	1,355,519
Assets held for sale and assets of discontinued operations	—	37,708
Cash and cash equivalents	42,464	28,819
Restricted cash	4,306	28,709
Other assets	31,933	23,759
TOTAL ASSETS	$ 1,551,027	$ 1,474,514
LIABILITIES, REDEEMABLE NONCONTROLLING INTERESTS, AND EQUITY		
LIABILITIES		
Liabilities held for sale and liabilities of discontinued operations	$ —	$ 30,062
Accounts payable and accrued expenses	33,757	40,430
Revolving line of credit	247,500	57,050
Mortgages payable, net of unamortized loan costs of $3,062 and $3,480, respectively	655,903	661,960
Construction debt	21,561	41,737
TOTAL LIABILITIES	958,721	831,239
COMMITMENTS AND CONTINGENCIES (NOTE 6)		
REDEEMABLE NONCONTROLLING INTERESTS – CONSOLIDATED REAL ESTATE ENTITIES	6,812	7,181
EQUITY		
Series B Preferred Shares of Beneficial Interest (Cumulative redeemable preferred shares, no par value, no shares issued and outstanding at October 31, 2017 and 4,600 shares issued and outstanding at April 30, 2017, aggregate liquidation preference of $115,000)	—	111,357
Series C Preferred Shares of Beneficial Interest (Cumulative redeemable preferred shares, no par value, 4,118 shares issued and outstanding at October 31, 2017 and no shares issued and outstading at April 30, 2017, aggregate liquidation preference of $102,962)	99,467	—
Common Shares of Beneficial Interest (Unlimited authorization, no par value, 120,189 shares issued and outstanding at October 31, 2017 and 121,199 shares issued and outstanding at April 30, 2017)	910,683	916,121

Accumulated distributions in excess of net income	(490,612)	(466,541)
Total shareholders' equity	519,538	560,937
Noncontrolling interests – Operating Partnership (14,618 units at October 31, 2017 and 15,617 units at April 30, 2017)	64,291	73,233
Noncontrolling interests – consolidated real estate entities	1,665	1,924
Total equity	585,494	636,094
TOTAL LIABILITIES, REDEEMABLE NONCONTROLLING INTERESTS, AND EQUITY	$ 1,551,027	$ 1,474,514

See accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents

INVESTORS REAL ESTATE TRUST AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited)

for the three and six months ended October 31, 2017 and 2016

	(in thousands, except per share data)			
	Three Months Ended October 31,		Six Months Ended October 31,	
	2017	2016	2017	2016
REVENUE				
Real estate rentals	$ 48,702	$ 45,859	$ 96,349	$ 90,844
Tenant reimbursement	5,219	4,750	10,307	9,376
TOTAL REVENUE	53,921	50,609	106,656	100,220
EXPENSES				
Property operating expenses, excluding real estate taxes	18,741	15,814	36,377	31,871
Real estate taxes	6,556	5,759	13,170	11,336
Depreciation and amortization	20,694	13,531	49,621	27,798
Impairment of real estate investments	—	—	256	54,153
General and administrative expenses	3,118	3,522	7,120	7,023
TOTAL EXPENSES	49,109	38,626	106,544	132,181
Operating income (loss)	4,812	11,983	112	(31,961)
Interest expense	(9,666)	(10,626)	(18,961)	(20,990)
Loss on extinguishment of debt	(334)	—	(533)	—
Interest income	199	56	220	84
Other income	57	37	267	197
(Loss) income before gain (loss) on sale of real estate and other investments and income from discontinued operations	(4,932)	1,450	(18,895)	(52,670)
Gain (loss) on sale of real estate and other investments	5,324	(103)	5,448	8,855
Income (loss) from continuing operations	392	1,347	(13,447)	(43,815)
Income from discontinued operations	12,747	10,943	13,307	15,511
NET INCOME (LOSS)	13,139	12,290	(140)	(28,304)
Net (income) loss attributable to noncontrolling interests – Operating Partnership	(773)	(1,174)	871	2,122
Net loss attributable to noncontrolling interests – consolidated real estate entities	455	484	826	16,139
Net income (loss) attributable to controlling interests	12,821	11,600	1,557	(10,043)
Dividends to preferred shareholders	(2,812)	(2,878)	(5,098)	(5,757)
Redemption of preferred shares	(3,649)	—	(3,649)	—
NET INCOME (LOSS) AVAILABLE TO COMMON SHAREHOLDERS	$ 6,360	$ 8,722	$ (7,190)	$ (15,800)
Loss per common share from continuing operations – basic and diluted	$ (0.05)	$ —	$ (0.16)	$ (0.23)
Earnings per common share from discontinued operations – basic and diluted	0.10	0.07	0.10	0.10
NET EARNINGS (LOSS) PER COMMON SHARE – BASIC & DILUTED	$ 0.05	$ 0.07	$ (0.06)	$ (0.13)

DIVIDENDS PER COMMON SHARE	$ 0.07	$ 0.13	$ 0.14	$ 0.26

See accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents

INVESTORS REAL ESTATE TRUST AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY (unaudited)

for the six months ended October 31, 2017 and 2016

(in thousands)

	NUMBER OF PREFERRED SHARES	PREFERRED SHARES	NUMBER OF COMMON SHARES	COMMON SHARES	ACCUMULATED DISTRIBUTIONS IN EXCESS OF NET INCOME	NONREDEEMABLE NONCONTROLLING INTERESTS	TOTAL EQUITY
Balance April 30, 2016	5,750	$ 138,674	121,091	$ 922,084	$ (442,000)	$ 99,504	$ 718,262
Net loss attributable to controlling interests and nonredeemable noncontrolling interests					(10,043)	(18,116)	(28,159)
Distributions – common shares and units					(31,556)	(4,234)	(35,790)
Distributions – Series A preferred shares					(1,186)		(1,186)
Distributions – Series B preferred shares					(4,571)		(4,571)
Shares issued and share-based compensation			553	1,218			1,218
Redemption of units for common shares			57	134		(134)	—
Contributions from nonredeemable noncontrolling interests – consolidated real estate entities						7,150	7,150
Distributions to nonredeemable noncontrolling interests – consolidated real estate entities						(155)	(155)

Acquisition of nonredeemable noncontrolling interests - consolidated real estate entities				(2,677)		(2,261)	(4,938)
Other						(615)	(615)
Balance October 31, 2016	5,750	$ 138,674	121,701	$ 920,759	$ (489,356)	$ 81,139	$ 651,216
Balance April 30, 2017	4,600	$ 111,357	121,199	$ 916,121	$ (466,541)	$ 75,157	$ 636,094
Net income (loss) attributable to controlling interests and nonredeemable noncontrolling interests					1,557	(1,328)	229
Distributions – common shares and units					(16,881)	(2,089)	(18,970)
Distributions – Series B preferred shares					(4,571)		(4,571)
Distributions – Series C preferred shares					(527)		(527)
Shares issued and share-based compensation			75	844			844
Series C preferred shares issued	4,118	99,467					99,467
Redemption of units for cash						(5,982)	(5,982)
Shares repurchased	(4,600)	(111,357)	(1,080)	(6,253)	(3,649)		(121,259)
Contributions from nonredeemable noncontrolling interests – consolidated real estate entities						239	239
Distributions to nonredeemable noncontrolling interests – consolidated real estate entities						(41)	(41)

Other			(5)	(29)			(29)
Balance October 31, 2017	4,118	$ 99,467	120,189	$ 910,683	$ (490,612)	$ 65,956	$ 585,494

See accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents

INVESTORS REAL ESTATE TRUST AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

for the six months ended October 31, 2017 and 2016

	(in thousands) Six Months Ended October 31,	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$ (140)	$ (28,304)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization, including amortization of capitalized loan costs	50,244	28,548
Depreciation and amortization from discontinued operations, including amortization of capitalized loan costs	9	64
Gain on sale of real estate, land, other investments and discontinued operations	(17,686)	(15,358)
Loss on extinguishment of debt	128	72
Share-based compensation expense	751	865
Impairment of real estate investments	256	54,153
Bad debt expense	498	371
Changes in other assets and liabilities:		
Receivable arising from straight-lining of rents	(128)	(487)
Accounts receivable	(195)	(588)
Prepaid and other assets	(864)	(541)
Tax, insurance and other escrow	(187)	(200)
Deferred charges and leasing costs	(998)	(851)
Accounts payable, accrued expenses and other liabilities	(4,756)	(2,357)
Net cash provided by operating activities	26,932	35,387
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from real estate deposits	38,029	—
Payments for real estate deposits	(14,370)	(1,370)
Increase in notes receivable	(6,126)	—
Decrease in other investments	—	50
Decrease in lender holdbacks for improvements	1,444	1,925
Increase in lender holdbacks for improvements	(513)	(614)
Proceeds from sale of discontinued operations	35,775	43,896
Proceeds from sale of real estate and other investments	18,039	13,875
Insurance proceeds received	530	481
Payments for acquisitions of real estate assets	(154,122)	—
Payments for development and re-development of real estate assets	(2,817)	(10,897)
Payments for improvements of real estate assets	(10,981)	(23,641)
Net cash (used) provided by investing activities	(95,112)	23,705
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from mortgages payable	—	1,113
Principal payments on mortgages payable	(51,733)	(53,208)
Proceeds from revolving lines of credit	293,350	30,000

Principal payments on revolving lines of credit	(102,900)	—
Proceeds from construction debt	3,124	11,174
Payment on financing liability	(7,900)	—
Proceeds from noncontrolling partner – consolidated real estate entities	—	500
Payments for acquisition of noncontrolling interests – consolidated real estate entities	—	(4,938)
Repurchase of common shares	(6,253)	—
Proceeds from issuance of Series C preferred shares, net of issue costs	99,467	—
Repurchase of Series B preferred shares	(115,005)	—
Repurchase of partnership units	(5,982)	—
Distributions paid to common shareholders	(16,881)	(31,556)
Distributions paid to preferred shareholders	(5,333)	(5,757)
Distributions paid to noncontrolling interests – Unitholders of the Operating Partnership	(2,089)	(4,234)
Distributions paid to noncontrolling interests – consolidated real estate entities	(40)	(155)
Net cash provided (used) by financing activities	81,825	(57,061)
NET INCREASE IN CASH AND CASH EQUIVALENTS	13,645	2,031
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	28,819	66,698
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 42,464	$ 68,729

See accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents

INVESTORS REAL ESTATE TRUST AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited, continued)

for the six months ended October 31, 2017 and 2016

	(in thousands) Six Months Ended October 31,	
	2017	2016
SUPPLEMENTARY SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES		
Operating partnership units converted to shares	$ —	$ 134
(Decrease) increase to accounts payable included within real estate investments	(2,106)	3,188
Construction debt reclassified to mortgages payable	23,300	10,549
Increase in mortgage notes receivable	10,329	—
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest, net of amounts capitalized of $0 and $298, respectively	$ 17,122	$ 17,457

See accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents

INVESTORS REAL ESTATE TRUST AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

for the six months ended October 31, 2017 and 2016

NOTE 1 • ORGANIZATION

Investors Real Estate Trust, collectively with our consolidated subsidiaries ("IRET," "we," "us," or "our"), is a multifamily real estate investment trust ("REIT") focused on the ownership, management, acquisition, redevelopment, and development of multifamily communities. As of October 31, 2017, we owned interests in 89 multifamily properties consisting of 13,576 apartment homes and 40 commercial properties, including 28 healthcare and 12 other commercial properties, with a total of 2.5 million square feet of leasable space.

NOTE 2 • BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

We conduct a majority of our business activities through our consolidated operating partnership, IRET Properties, a North Dakota Limited Partnership (the "Operating Partnership"), as well as through a number of other consolidated subsidiary entities. The accompanying condensed consolidated financial statements include our accounts and the accounts of all our subsidiaries in which we maintain a controlling interest, including the Operating Partnership. All intercompany balances and transactions are eliminated in consolidation. Our fiscal year ends April 30th.

The condensed consolidated financial statements also reflect the ownership by the Operating Partnership of certain joint venture entities in which the Operating Partnership has a general partner or controlling interest. These entities are consolidated into our other operations, with noncontrolling interests reflecting the noncontrolling partners' share of ownership and income and expenses.

UNAUDITED INTERIM FINANCIAL STATEMENTS

Our interim condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim financial information and the applicable rules and regulations of the Securities and Exchange Commission ("SEC"). Accordingly, certain disclosures accompanying annual financial statements prepared in accordance with U.S. GAAP are omitted. The year-end balance sheet data was derived from audited financial statements, but does not include all disclosures required by U.S. GAAP. In the opinion of management, all adjustments, consisting solely of normal recurring adjustments, necessary for the fair presentation of our financial position, results of operations and cash flows for the interim periods have been included.

The current period's results of operations are not necessarily indicative of results which ultimately may be achieved for the year. The interim condensed consolidated financial statements and accompanying notes thereto should be read in conjunction with the consolidated financial statements and accompanying notes included in our Annual Report on Form 10-K for the fiscal year ended April 30, 2017, as filed with the SEC on June 28, 2017.

RECENT ACCOUNTING PRONOUNCEMENTS

The following table provides a brief description of recent accounting standards updates ("ASUs") that could have a material effect on our financial statements:

8

Table of Contents

Standard	Description	Date of Adoption	Effect on the Financial Statements or Other Significant Matters
ASU 2014-09, Revenue from Contracts with Customers	This ASU will eliminate the transaction- and industry-specific revenue recognition guidance under current GAAP and replace it with a principle based approach for determining revenue recognition. The standard outlines a five-step model whereby revenue is recognized as performance obligations within a contract are satisfied. The majority of our revenue is derived from rental income, which is scoped out from this standard and will be accounted for under ASC 840, Leases. Our other revenue streams, which are being evaluated under this ASU, include but are not limited to other income from residents determined not to be within the scope of ASC 840 and gains and losses from real estate dispositions.	This ASU is effective for annual reporting periods beginning after December 15, 2017, as a result of a deferral of the effective date arising from the issuance of ASU 2015-14, Revenue from Contracts with Customers - Deferral of the Effective Date. Early adoption is permitted. We will adopt the new standard effective May 1, 2018 using the modified retrospective approach.	We are continuing to assess the impact of the new standard on our consolidated financial statements and internal accounting processes; as the majority of our revenue is derived from rental income, we do not expect the adoption of ASU 2014-09 will have a material impact on our consolidated financial statements.
ASU 2016-02, Leases	This ASU amends existing accounting standards for lease accounting, including by requiring lessees to recognize most leases on the balance sheet and making certain changes to lessor accounting.	This ASU is effective for annual reporting periods beginning after December 15, 2018; however, early adoption is permitted.	We are currently evaluating the impact the new standard may have on our consolidated financial statements.
ASU 2016-09, Improvements to Employee Share-Based Payment Accounting	This ASU amends several aspects of the accounting for share-based payment transactions, including the income tax consequences, accrual of compensation cost, classification of awards as either equity or liabilities, and classification on the statement of cash flows.	This ASU is effective for annual reporting periods beginning after December 15, 2016. We adopted this guidance effective May 1, 2017.	Upon adoption of the standard, we elected to account for forfeitures when they occur instead of estimating the forfeitures. The new standard did not have a material effect on our financial position, results of operations or earnings per share.
ASU 2016-15, Classification of Certain Cash Receipts and Cash Payments	This ASU addresses eight specific cash flow issues with the objective of reducing diversity in practice. The cash flow issues include debt prepayment or debt extinguishment costs and proceeds from the settlement of insurance claims.	This ASU is effective for interim and annual periods beginning after December 15, 2017, and early adoption is permitted.	We are currently evaluating the impact the new standard may have on our consolidated financial statements.
ASU 2017-01, Clarifying the Definition of a Business	This ASU clarifies the definition of a business and provides further guidance for evaluating whether a transaction will be accounted for as an acquisition of an asset or a business. This new standard is required to be applied	This ASU is effective for interim and annual periods beginning after December 15, 2017. We early adopted this standard effective May 1,	We believe that most of our future acquisitions of operating properties will qualify as asset acquisitions and most future transaction costs associated with these acquisitions will be

prospectively to transactions occurring after the date of adoption.	2017.	capitalized. Adoption of the standard did not have a material effect on our financial position or results of operations. During the six months ended October 31, 2017, acquisition costs totaling approximately $245,000 from our acquisitions of Oxbo and Park Place were capitalized and allocated to the assets acquired based on the relative fair market value of those underlying assets.

9

Table of Contents

Standard	Description	Date of Adoption	Effect on the Financial Statements or Other Significant Matters
ASU 2017-05, Other Income – Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets	This ASU clarifies the definition of an in-substances nonfinancial asset and changes the accounting for partial sales of nonfinancial assets to be more consistent with the accounting for a sale of a business pursuant to ASU 2017-01. This ASU allows for either a retrospective or modified retrospective approach.	This ASU is effective for interim and annual periods beginning after December 15, 2018, and early adoption is permitted.	This standard allows for either a retrospective or modified retrospective approach. We are currently evaluating the impact this standard may have on our consolidated financial statements and related disclosures upon adoption.
ASU 2017-12, Derivatives and Hedging	This ASU clarifies hedge accounting requirements, improves disclosure of hedging arrangements, and better aligns risk management activities and financial reporting for hedging relationships.	This ASU is effective for interim and annual periods beginning after December 15, 2018, and early adoption is permitted.	This standard should be adopted using a modified retrospective approach. We are currently evaluating the impact this standard may have on our consolidated financial statements and related disclosures upon adoption.

IMPAIRMENT OF LONG-LIVED ASSETS

We periodically evaluate our long-lived assets, including investments in real estate, for impairment indicators. The impairment evaluation is performed on assets by property such that assets for a property form an asset group. The judgments regarding the existence of impairment indicators are based on factors such as operational performance, market conditions, expected holding period of each asset group, and legal and environmental concerns. If indicators exist, we compare the expected future undiscounted cash flows for the long-lived asset group against the carrying amount of that asset group. If the sum of the estimated undiscounted cash flows is less than the carrying amount of the asset group, an impairment loss is recorded for the difference between the estimated fair value and the carrying amount of the asset group. If our anticipated holding period for properties, the estimated fair value of properties or other factors change based on market conditions or otherwise, our evaluation of impairment charges may be different and such differences could be material to our consolidated financial statements. The evaluation of anticipated cash flows is subjective and is based, in part, on assumptions regarding future occupancy, rental rates and capital requirements that could differ materially from actual results. Plans to hold properties over longer periods decrease the likelihood of recording impairment losses.

During the six months ended October 31, 2017, we recognized impairment of approximately $256,000 on a parcel of land in Bismarck, ND. This property was written down to estimated fair value during the first quarter of fiscal year 2018 based on receipt of a market offer to purchase and our intent to dispose of the property. We disposed of the property during the second quarter of fiscal year 2018.

During the six months ended October 31, 2016, we recognized impairments of $40.9 million, $5.8 million, $4.7 million, and $2.8 million, respectively, on three multifamily properties and one parcel of unimproved land in Williston, ND, due to deterioration of the market. These properties were written down to estimated fair value based on an independent appraisal in the case of one property and management cash flow estimates and market data in the case of the remaining assets. The properties impaired for $40.9 million, $4.7 million, and $2.8 million are owned by joint venture entities in which, at the time of impairment, we had an approximately 71.5%, 60% and 70% interest, respectively, but which are consolidated in our financial statements.

USE OF ESTIMATES

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

CHANGE IN DEPRECIABLE LIVES OF REAL ESTATE ASSETS

We review the estimated useful lives of our real estate assets on an ongoing basis. Prior to our strategic shift to become a multifamily-focused REIT, which began in fiscal year 2016, we operated in five segments (office, retail, industrial, healthcare and multifamily). Accordingly, our estimated useful lives represented a blend of these segments. During fiscal years 2016 and 2017, we disposed of the bulk of our office, retail, and industrial portfolios as well as a portion of our healthcare portfolio. In the first quarter of fiscal year 2018, we determined it was appropriate to review and adjust our estimated useful lives to be specific to our remaining portfolio of assets.

Effective May 1, 2017, we changed the estimated useful lives of our real estate assets to better reflect the estimated periods during which these assets will be of economic benefit. Generally, the estimated lives of buildings and improvements that previously were 20-40 years have been decreased to 10-30 years, while those that were previously nine years were changed to 5-10 years. The effect of this change in estimate in the six months ended October 31, 2017, was to increase depreciation expense by approximately $20.3 million, decrease net income by $20.3 million, and decrease earnings per share by $0.15. Of the total increase in expense, $9.0 million, or $0.07 per share, represented depreciation on assets that were fully depreciated under the new estimated useful lives in the first quarter of fiscal year 2018.

RECLASSIFICATIONS

Certain previously reported amounts have been reclassified to conform to the current financial statement presentation. On the Condensed Consolidated Statements of Operations, we reclassified other expenses into general and administrative expenses. On the Condensed Consolidated Balance Sheets, we reclassified real estate deposits and tax, insurance, and other escrow into restricted cash. We also reclassified receivables arising from straight-lining of rents, accounts receivable, prepaid and other assets, notes receivable, intangible assets, property and equipment, goodwill, and deferred charges and leasing costs into other assets. Additionally, we reclassified other long-term liabilities previously included within construction debt and other to accounts payable and accrued expenses.

MORTGAGE LOANS RECEIVABLE AND NOTES RECEIVABLE

In August 2017, we sold 13 multifamily properties in exchange for cash and a note secured by a mortgage on the assets. The sale was recorded using the installment method, under which cash receipts are apportioned between cost recovered and the gain on sale. The $11.0 million note is presented net of approximately $626,000 of deferred gain in mortgage loans receivable on the Condensed Consolidated Balance Sheets. The note bears an interest rate of 5.5% and matures in August 2020. Monthly payments are interest-only, with the principal balance payable at maturity. During the three months ended October 31, 2017, we received and recognized approximately $119,000 of interest income.

In July 2017, we originated a $16.2 million loan in a multifamily development located in New Hope, MN, a suburb of Minneapolis. The investment will be funded in installments through the third quarter of fiscal year 2018. As of October 31, 2017, we had funded $6.1 million which appears in other assets on the Condensed Consolidated Balance Sheets. The note bears an interest rate of 6%, matures in July 2023, and provides us with an option to purchase the development prior to the loan maturity date.

VARIABLE INTEREST ENTITY

We have determined that our Operating Partnership and each of our less-than-wholly owned real estate partnerships are variable interest entities (“VIEs”), as the limited partners lack substantive kick-out rights and substantive participating rights. We are the primary beneficiary of the VIEs, and the partnerships are required to be consolidated on our balance sheet because we have a controlling financial interest in the VIEs and have both the power to direct the activities of the

Table of Contents

VIEs that most significantly impact the VIE's economic performance as well as the obligation to absorb losses or the right to receive benefits from the VIEs that could potentially be significant to the VIEs. Because our Operating Partnership is a VIE, all of our assets and liabilities are held through a VIE.

NOTE 3 • EARNINGS PER SHARE

Basic earnings per share is computed by dividing net income available to common shareholders by the weighted average number of our common shares of beneficial interest ("Common Shares") outstanding during the period. We have issued restricted stock units ("RSUs") under our 2015 Incentive Plan, which could have a dilutive effect on our earnings per share upon exercise of the RSUs. Other than the issuance of RSUs, we have no outstanding options, warrants, convertible stock or other contractual obligations requiring issuance of additional shares that would result in dilution of earnings. Under the terms of the Operating Partnership's Agremeent of Limited Partnership, limited partners have the right to require the Operating Partnership to redeem their limited partnership units ("Units") for cash any time following the first anniversary of the date they acquired such Units ("Exchange Right"). Upon the exercise of Exchange Rights, and in our sole discretion, we may issue Common Shares in exchange for Units on a one-for-one basis after a minimum holding period of one year. The following table presents a reconciliation of the numerator and denominator used to calculate basic and diluted earnings per share reported in the condensed consolidated financial statements for the three and six months ended October 31, 2017 and 2016:

	(in thousands, except per share data)			
	Three Months Ended October 31,		Six Months Ended October 31,	
	2017	2016	2017	2016
NUMERATOR				
Income (loss) from continuing operations – controlling interests	$ 1,446	$ 2,426	$ (10,317)	$ (22,488)
Income from discontinued operations – controlling interests	11,375	9,174	11,874	12,445
Net income (loss) attributable to controlling interests	12,821	11,600	1,557	(10,043)
Dividends to preferred shareholders	(2,812)	(2,878)	(5,098)	(5,757)
Redemption of preferred shares	(3,649)	—	(3,649)	—
Numerator for basic earnings per share – net income available to common shareholders	6,360	8,722	(7,190)	(15,800)
Noncontrolling interests – Operating Partnership	773	1,174	(871)	(2,122)
Numerator for diluted earnings per share	$ 7,133	$ 9,896	$ (8,061)	$ (17,922)
DENOMINATOR				
Denominator for basic earnings per share weighted average shares	120,144	121,154	120,282	121,135
Effect of redeemable operating partnership units	14,623	16,264	14,912	16,276
Denominator for diluted earnings per share	134,767	137,418	135,194	137,411
Loss per common share from continuing operations – basic and diluted	$ (0.05)	$ —	$ (0.16)	$ (0.23)
Earnings per common share from discontinued operations – basic and diluted	0.10	0.07	0.10	0.10
NET EARNINGS (LOSS) PER COMMON SHARE – BASIC & DILUTED	$ 0.05	$ 0.07	$ (0.06)	$ (0.13)

NOTE 4 • EQUITY

Equity Awards. There were no shares issued under our 2015 Incentive Award Plan during the second quarter of fiscal year 2018 and approximately 75,000 restricted Common Shares, with a total grant-date value of approximately $445,000, issued during the first quarter of fiscal year 2018. During the second quarter of fiscal year 2017, we issued approximately 120,792 restricted Common Shares, with a total grant-date value of $502,000, under our 2015 Incentive Award Plan, and we issued approximately 378,000 restricted Common Shares, with a total grant-date value of $1.4 million,during the first quarter of fiscal year 2017. These shares are issued for executive officer and trustee share-based compensation for future performance under our 2015 Incentive Award Plan.

Exchange Rights. Pursuant to the exercise of Exchange Rights, during the three months ended October 31, 2017, we redeemed approximately 39,622 Units for an aggregate cost of $246,524, at an average price per Unit of $6.22. There

Table of Contents

were no Units redeemed during the three months ended October 31, 2016. During the six months ended October 31, 2017, we redeemed approximately 999,529 Units for an aggregate cost of $6.0 million, at an average price per Unit of $5.98. There were no Units redeemed during the six months ended October 31, 2016.

Share Repurchase Program. On December 7, 2016, our Board of Directors authorized a share repurchase program to repurchase up to $50 million of our Common Shares over a one-year period. On December 5, 2017, our Board of Trustees reauthorized this share repurchase program for an additional one-year period. Under this program, we may repurchase the shares in open-market purchases including pursuant to Rule 10b5-1 plans, as determined by management and in accordance with the requirements of the Securities and Exchange Commission. The extent to which we repurchase our shares, and the timing of such repurchases, will depend upon a variety of factors, including market conditions, regulatory requirements and other corporate considerations, as determined by the executive management team. The program may be suspended or discontinued at any time. During the second quarter of fiscal year 2018, we repurchased and retired approximately 398,000 common shares for an aggregate cost of $2.3 million, including commissions, at an average price per share of $5.82. As of October 31, 2017, $39.2 million remained available under the $50 million authorized share repurchase program.

Issuance of Series C Preferred Shares and Redemption of Series B Preferred Shares. In the quarter ended October 31, 2017, we issued 4,118,460 shares of our 6.625% Series C Cumulative Redeemable Preferred Shares and redeemed all 4,600,000 shares of our 7.95% Series B Cumulative Redeemable Preferred Shares.

NOTE 5 • SEGMENT REPORTING

We report our results in two reportable segments, which are aggregations of similar properties: multifamily and healthcare. We measure the performance of our segments based on net operating income ("NOI"), which we define as total real estate revenues less real estate expenses (which consist of utilities, maintenance, real estate taxes, insurance, property management expenses and other property expenses). We believe that NOI is an important supplemental measure of operating performance for a REIT's operating real estate because it provides a measure of core operations that is unaffected by depreciation, amortization, financing, and general and administrative expense. NOI does not represent cash generated by operating activities in accordance with US GAAP and should not be considered an alternative to net income, net income available for common shareholders, or cash flow from operating activities as a measure of financial performance.

The revenues and NOI for these reportable segments are summarized as follows for the three- and six-month periods ended October 31, 2017 and 2016, along with reconciliations to the condensed consolidated financial statements. Segment assets are also reconciled to total assets as reported in the condensed consolidated financial statements.

	(in thousands)				
Three Months Ended October 31, 2017	Multifamily	Healthcare	All Other	Amounts Not Allocated To Segments(1)	Total
Real estate revenue	$ 39,734	$ 11,449	$ 2,738	$ —	$ 53,921
Real estate expenses	18,888	4,373	698	1,338	25,297

Net operating income (loss)	$ 20,846	$ 7,076	$ 2,040	$ (1,338)	$ 28,624
Depreciation and amortization					(20,694)
General and administrative expenses					(3,118)
Interest expense					(9,666)
Loss on debt extinguishment					(334)
Interest and other income					256
Loss before gain on sale of real estate and other investments and income from discontinued operations					(4,932)
Gain on sale of real estate and other investments					5,324
Income from continuing operations					392
Income from discontinued operations					12,747
Net income					$ 13,139

(1) Consists of offsite costs for property management and casualty-related amounts, which are excluded in our assessment of segment performance.

Table of Contents

	(in thousands)				
Three Months Ended October 31, 2016	Multifamily	Healthcare	All Other	Amounts Not Allocated To Segments(1)	Total
Real estate revenue	$ 36,187	$ 11,661	$ 2,761	$ —	$ 50,609
Real estate expenses	15,566	4,151	730	1,126	21,573
Net operating income (loss)	$ 20,621	$ 7,510	$ 2,031	$ (1,126)	29,036
Depreciation and amortization					(13,531)
General and administrative expenses					(3,522)
Interest expense					(10,626)
Interest and other income					93
Gain before loss on sale of real estate and other investments and income from discontinued operations					1,450
Loss on sale of real estate and other investments					(103)
Income from continuing operations					1,347
Income from discontinued operations					10,943
Net income					$ 12,290

	(in thousands)				
Six Months Ended October 31, 2017	Multifamily	Healthcare	All Other	Amounts Not Allocated To Segments(1)	Total
Real estate revenue	$ 78,164	$ 22,827	$ 5,665	—	$ 106,656
Real estate expenses	36,353	8,658	1,491	3,045	49,547
Net operating income (loss)	$ 41,811	$ 14,169	$ 4,174	(3,045)	57,109
Depreciation and amortization					(49,621)
Impairment of real estate investments					(256)
General and administrative expenses					(7,120)
Interest expense					(18,961)
Loss on debt extinguishment					(533)
Interest and other income					487
Loss before gain on sale of real estate and other investments and income from discontinued operations					(18,895)
Gain on sale of real estate and other investments					5,448
Loss from continuing operations					(13,447)
Income from discontinued operations					13,307
Net loss					$ (140)

(1)

Consists of offsite costs for property management and casualty-related amounts, which are excluded in our assessment of segment performance.

Table of Contents

Six Months Ended October 31, 2016	(in thousands) Multifamily	Healthcare	All Other	Amounts Not Allocated To Segments(1)	Total
Real estate revenue	$ 71,229	$ 23,202	$ 5,789	$ —	$ 100,220
Real estate expenses	30,445	8,343	1,456	2,963	43,207
Net operating income (loss)	$ 40,784	$ 14,859	$ 4,333	$ (2,963)	57,013
Depreciation and amortization					(27,798)
Impairment of real estate investments					(54,153)
General and administrative expenses					(7,023)
Interest expense					(20,990)
Interest and other income					281
Loss before gain on sale of real estate and other investments					(52,670)
Gain on sale of real estate and other investments					8,855
Loss from continuing operations					(43,815)
Income from discontinued operations					15,511
Net loss					$ (28,304)

(1) Consists of offsite costs for property management and casualty-related amounts, which are excluded in our assessment of segment performance.

Segment Assets and Accumulated Depreciation

Segment assets are summarized as follows as of October 31, 2017, and April 30, 2017, along with reconciliations to the condensed consolidated financial statements:

As of October 31, 2017	(in thousands) Multifamily	Healthcare	All Other	Total
Segment assets				
Property owned	$ 1,409,598	$ 321,863	$ 99,720	$ 1,831,181
Less accumulated depreciation	(269,976)	(91,948)	(22,478)	(384,402)
Total property owned	$ 1,139,622	$ 229,915	$ 77,242	$ 1,446,779
Cash and cash equivalents				42,464
Mortgage loans receivable				10,329
Receivables and other assets				36,239
Unimproved land				15,216
Total Assets				$ 1,551,027

As of April 30, 2017	(in thousands) Multifamily	Healthcare	All Other	Total
Segment assets				
Property owned	$ 1,251,716	$ 323,148	$ 102,617	$ 1,677,481

Less accumulated depreciation	(232,183)	(86,139)	(22,095)	(340,417)
Total property owned	$ 1,019,533	$ 237,009	$ 80,522	$ 1,337,064
Assets held for sale and assets from discontinued operations				37,708
Cash and cash equivalents				28,819
Receivables and other assets				52,468
Unimproved land				18,455
Total Assets				$ 1,474,514

Table of Contents

NOTE 6 • COMMITMENTS AND CONTINGENCIES

Litigation. We are not a party to any legal proceedings which are expected to have a material effect on our liquidity, financial position, cash flows or results of operations. We are subject to a variety of legal actions for personal injury or property damage arising in the ordinary course of our business, most of which are covered by liability insurance. Various claims of resident discrimination are also periodically brought, most of which are covered by insurance. While resolution of these matters cannot be predicted with certainty, management believes that the final outcome of these claims and legal proceedings will not have a material effect on our liquidity, financial position, cash flows or results of operations.

Environmental Matters. Under various federal, state, and local laws, ordinances, and regulations, a current or previous owner or operator of real estate may be liable for the costs of removal of, or remediation of, certain hazardous or toxic substances in, on, around, or under the property. While we currently have no knowledge of any material violation of environmental laws, ordinances or regulations at any of our properties, there can be no assurance that areas of contamination will not be identified at any of our properties, or that changes in environmental laws, regulations or cleanup requirements would not result in material costs to us.

Restrictions on Taxable Dispositions. Approximately 28 of our properties, consisting of approximately 472,000 square feet of our combined commercial properties and 3,438 apartment units, are subject to restrictions on our ability to resell in taxable transactions. These restrictions are contained in agreements we entered into with some of the sellers or contributors of the properties, and are effective for varying periods. The real estate investment amount of these properties (net of accumulated depreciation) was $323.7 million at October 31, 2017. If we are unable to structure sales of such properties as tax deferred transactions under Section 1031 of the Internal Revenue Code, we may be required to provide tax indemnification payments to the parties to these agreements. We do not believe that these restrictions materially affect the conduct of our business or decisions whether to dispose of these properties during the restriction periods.

Notes Receivable. In July 2017, we originated a $16.2 million loan in a multifamily development located in New Hope, MN, a suburb of Minneapolis. The investment will be funded in installments through the third quarter of fiscal year 2018. As of October 31, 2017, $10.1 million remained to be funded. See Note 2 for additional information.

NOTE 7 • DISCONTINUED OPERATIONS

We report in discontinued operations the results of operations and the related gains or losses on the sales of properties that have either been disposed of or classified as held for sale and meet the classification of a discontinued operation as described in ASC 205 - Presentation of Financial Statements and ASC 360 - Property, Plant, and Equipment: Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. Under this standard, a disposal (or classification as held for sale) of a component of an entity or a group of components of an entity is required to be reported in discontinued operations if the disposal represents a strategic shift that has (or will have) a major effect on an entity’s operations and financial results.

We classified no new dispositions or properties held for sale as discontinued operations during the six months ended October 31, 2017, or during fiscal year 2017. During fiscal year 2016, we determined that our strategic decision to exit senior housing met the criteria for discontinued operations, and we consequently classified 34 senior housing properties as held for sale and discontinued operations at April 30, 2016. Thirty-two of those senior housing properties were sold during the fiscal year ended April 30, 2017, and the remaining two senior housing properties were sold during the three months ended October 31, 2017.

Table of Contents

The following information shows the effect on net income and the gains or losses from the sales of properties classified as discontinued operations for the three and six months ended October 31, 2017 and 2016:

	(in thousands)			
	Three Months Ended October 31,		Six Months Ended October 31,	
	2017	2016	2017	2016
REVENUE				
Real estate rentals	$ 683	$ 4,992	$ 1,473	$ 10,002
Tenant reimbursement	—	112	—	226
TRS senior housing revenue	—	916	—	1,789
TOTAL REVENUE	683	6,020	1,473	12,017
EXPENSES				
Real estate taxes	—	(112)	—	—
Depreciation and amortization	—	—	—	16
TRS senior housing expenses	—	769	—	1,553
Other expenses	15	—	15	—
TOTAL EXPENSES	15	657	15	1,569
Operating income	668	5,363	1,458	10,448
Interest expense	(279)	(1,395)	(1,100)	(2,769)
Gain/loss on extinguishment of debt	(6)			