

INVESTORS REAL ESTATE TRUST  
Form 424B2  
September 11, 2002  
PROSPECTUS

Filed Pursuant To Rule 424B(2)  
Registration No. 333-98575

[IRET LOGO]

## Investors Real Estate Trust

### 7,214,547 Shares of Beneficial Interest

We are a self-advised real estate investment trust ( REIT ) that is engaged in acquiring, owning and leasing multi-family residential and commercial real estate. Our principal executive office is located at 12 South Main, Suite 100, Minot, North Dakota, 58701. Our telephone number is (701) 837-4738.

This Prospectus relates to the offer and sale from time to time by certain persons listed in this Prospectus as selling shareholders of up to 7,214,547 shares of beneficial interest. Our shares of beneficial interest ( Shares ) are the functional equivalent of common stock, having the rights and preferences normally associated with common stock. We may issue the Shares covered by this Prospectus to such selling shareholders to the extent that they redeem their limited partnership units ( LP Units ) of IRET Properties, a North Dakota Limited Partnership ( IRET Properties ) and we elect to issue Shares in connection with such redemption. We may elect to pay cash for redeemed LP Units rather than issue Shares.

We are registering the Shares covered by this Prospectus as required under the Agreement of Limited Partnership of IRET Properties, dated January 31, 1997 and as amended to date. The registration of the Shares does not necessarily mean that any of the selling shareholders will redeem their LP Units or that, following the redemption of LP Units and the issuance of Shares, any Shares will be offered or sold by the selling shareholders. All net proceeds from the sale of the Shares covered by this Prospectus will go to the selling shareholders. We will not receive any proceeds from any sales of Shares, but will incur expenses in connection with the offering. See Selling Shareholders and Plan of Distribution.

The selling shareholders may sell the Shares covered in this Prospectus from time to time on the Nasdaq National Market or such other national securities exchange or automated interdealer quotation system on which our Shares are then listed or quoted, through negotiated transactions or otherwise at market prices prevailing at the time of the sale or at negotiated prices. The selling shareholders may engage brokers or dealers who may receive commissions or discounts from the selling shareholders.

Our Shares are traded on the Nasdaq National Market under the symbol IRETS.

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved these securities or determined if this Prospectus is truthful or complete. Any representation to the contrary is a criminal offense.**

The date of this Prospectus is September 9, 2002.

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## ABOUT THIS PROSPECTUS

This Prospectus is part of a Registration Statement on Form S-3/A that we filed with the Securities and Exchange Commission under the Securities Act of 1933, as amended (the Securities Act ). This Prospectus and any accompanying prospectus supplement do not contain all of the information included in the Registration Statement. For further information, we refer you to the Registration Statement, including its exhibits. Statements contained in this Prospectus and any accompanying prospectus supplement about the provisions or contents of any agreement or other document are not necessarily complete. If the rules and regulations of the Securities and Exchange Commission require that such agreement or document be filed as an exhibit to the Registration Statement, please see such agreement or document for a complete description of these matters. You should not assume that the information in this Prospectus or any prospectus supplement is accurate as of any date other than the date on the front of each document.

This Prospectus provides you with a general description of the Shares covered by this Prospectus and any prospectus supplement. Each time a selling shareholder sells any of the Shares covered by this Prospectus, the selling shareholder will provide you with this Prospectus and a prospectus supplement, if applicable, that will contain specific information about the terms of that offering. The prospectus supplement also may add, update or change any information contained in this Prospectus. You should read both this Prospectus and any prospectus supplement together with additional information described under the heading Where to Find More Information.

## WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission. You may read and copy any document we file at the Securities and Exchange Commission's public reference rooms at 450 Fifth Street, N.W., Washington, D.C., 20549, and in New York, New York and Chicago, Illinois. Please call the Securities and Exchange Commission at 1-800-SEC-0330 for further information on the public reference rooms. Our Securities and Exchange Commission filings are also available to the public at the Securities and Exchange Commission's web site at <http://www.sec.gov> and our web site at <http://www.irets.com>. Information on our website does not constitute part of this Prospectus. Our Exchange Act filing number is 0-14851.

The Securities and Exchange Commission allows us to incorporate by reference the information we file with them, which means that we can disclose important information to you by referring you to those documents. The information incorporated by reference is considered to be part of this Prospectus, and later information filed with the Securities and Exchange Commission will update and supersede this information. We incorporate by reference the documents listed below, and any future filings made with the Securities and Exchange Commission under Section 13(a), 13(c), 14 or 15(d) of the Exchange Act after the date of this Prospectus but before the end of any offering of Shares under this Prospectus.

- The Company's Annual Report on Form 10-K for the year ended April 30, 2002;
- The description of the Company's shares of beneficial interest is contained in the Company's Registration Statement on Form 10 (File No. 0-14851), dated July 29, 1986, as amended by the Amended Registration Statement on Form 10, dated December 17, 1986, and the Second Amended Registration Statement on Form 10, dated March 12, 1987.

You may request a copy of these filings, at no cost, by writing or calling us at the following address and telephone number:

Timothy P. Mihalick  
Investors Real Estate Trust

12 South Main Street, Suite 100  
Minot, N.D. 58701  
(701) 837-4738

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## **SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS**

Certain statements included in this Prospectus and the documents incorporated into this Prospectus by reference are forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). Such forward-looking statements include statements about our intention to invest in properties that we believe will increase in income and value; our belief that the real estate markets in which we invest will continue to perform well; our belief that we have the liquidity and capital resources necessary to meet our known obligations and to make additional real estate acquisitions and capital improvements when appropriate to enhance long term growth; and other statements preceded by, followed by or otherwise including words such as believe, expect, intend, project, anticipate, potential, may, will, should, continue and other similar expressions. These statements indicate that we have used assumptions that are subject to a number of risks and uncertainties that could cause our actual results or performance to differ materially from those projected.

Although we believe that the expectations reflected in such forward-looking statements are based on reasonable assumptions, we can give no assurance that these expectations will prove to have been correct. Important factors that could cause actual results to differ materially from the expectations reflected in the forward-looking statements include:

- the economic health of the markets in which we hold investments, specifically the states of Minnesota and North Dakota, or other markets in which we may invest in the future;
- the economic health of our commercial tenants;
- our ability to identify and secure additional multi-family residential and commercial properties that meet our criteria for investment;
- the level and volatility of prevailing market interest rates and the pricing of our Shares;
- financing risks, such as the inability to obtain debt or equity financing on favorable terms, or at all;
- timely completion and lease-up of properties under construction;
- competition;
- compliance with applicable laws, including those concerning the environment and access by persons with disabilities; and
- other risks identified in this Prospectus and from time to time in the reports that we file with the Securities and Exchange Commission or otherwise publicly disseminate.

In light of these uncertainties, the events anticipated by our forward-looking statements might not occur. We undertake no obligation to update or revise our forward-looking statements, whether as a result of new information, future events or otherwise.

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## **IRET**

We are a self-administered, self-managed equity REIT. Our business consists of owning and operating

income-producing real properties. We are structured as an UPREIT and we conduct our day-to-day business operations through our operating partnership, IRET Properties. We have fundamental strategies of focusing our real estate investments in the upper Midwest, primarily in Minnesota, North Dakota, South Dakota, Montana and Nebraska, and of diversifying our investments between multi-family residential and commercial properties.

Our objective is to increase shareholder value by employing a disciplined investment strategy. This strategy is focused on growing assets in desired geographical markets, achieving diversification by property type and location, adhering to targeted returns in acquiring properties and regularly increasing funds from operations and dividend rates. We have increased our dividends every year since our inception and every quarter since 1988.

We seek to diversify our investments between multi-family residential and commercial properties. As of April 30, 2002, our real estate portfolio consisted of:

- 66 multi-family residential properties, containing 8,296 apartment units and having a total asset value (less accumulated depreciation) of \$348 million; and
- 67 commercial properties, containing 3,769,480 square feet of leasable space and having a total asset value (less accumulated depreciation) of \$333 million.

Typically, we attempt to concentrate our multi-family residential properties in communities with populations of approximately 35,000 to 500,000 and we attempt to concentrate our commercial holdings in metropolitan areas with populations of approximately 100,000 to 3.0 million. Our multi-family residential properties include apartment buildings, complexes and communities. Our commercial properties include office buildings, warehouse and industrial facilities, medical office and health care facilities and retail stores and centers.

We generally use available cash or short-term floating rate debt to acquire real estate. We then replace such cash or short-term floating rate debt with fixed-rate secured debt, typically in an amount equal to 70% of the acquisition cost. In appropriate circumstances, we also may acquire one or more properties in exchange for equity securities or LP Units of IRET Properties, which are convertible into Shares on a one-to-one basis after the expiration of a minimum one-year holding period. Subject to our continued ability to raise equity capital and exchange LP Units, we anticipate acquiring \$100 million to \$200 million of real estate assets on an annual basis.

We contract with locally based third-party management companies to handle all onsite management duties necessary for the proper operation of our properties. All of our management contracts provide for compensation ranging from 2.8 to five percent of gross rent collections and may be terminated by us in 60 days or less by providing written notice of termination. The use of locally-based management companies allows us to enjoy the benefits of local knowledge of the applicable real estate market, while avoiding the cost and difficulty associated with maintaining management personnel in every location in which we operate.

We operate in a manner intended to enable us to qualify as a REIT under the Internal Revenue Code. In accordance with the Code, a REIT that distributes its capital gain and at least 90% of its taxable income to its shareholders each year, and which meets certain other conditions, will not be taxed on the portion of taxable income that is distributed to shareholders.

#### **NO PROCEEDS TO IRET**

We will not receive any proceeds from the sale by the selling shareholders of the Shares covered by this Prospectus. All of the net proceeds from the sale of the Shares covered by this Prospectus will go to the selling shareholders who offer and sell their shares. All costs and expenses incurred in connection with the registration under the Securities Act of the offering made hereby will be paid by us, other than any brokerage fees and commissions, fees and disbursements of legal counsel for the selling shareholders and share transfer and other taxes attributable to the sale of Shares, which will be paid by the selling shareholders. See Selling Shareholders.

### SELLING SHAREHOLDERS

The selling shareholders hold 7,214,547 LP Units in IRET Properties. We may issue the Shares covered by this Prospectus to the selling shareholders in exchange for LP Units if and to the extent that the selling shareholders redeem the LP units and we elect to issue Shares in exchange for such LP Units. The following table sets forth certain information with respect to the selling shareholders and their ownership of Shares as of July 31, 2002. Except as indicated below, none of the named selling shareholders hold any position, office or has any other material relationship with us, or any of our predecessors or affiliates, during the past three years. Except as indicated below, the Shares owned by each selling shareholder prior to the offering represent less than 1% of the sum of the Shares outstanding as of July 31, 2002 plus all Shares to be issued upon redemption of the outstanding LP Units in IRET Properties by the selling shareholders named herein, assuming redemption of all outstanding LP Units in IRET Properties in exchange for Shares.

Since the selling shareholders may sell all, some or none of the offered shares, and since there are currently no agreements, arrangements or understandings with respect to the sale of any of such Shares, no estimate can be given as to the number or percentage of shares that will be held by the selling shareholders upon termination of any offering made hereby. The Shares covered by this Prospectus represent approximately 18% of the sum of our total Shares outstanding as of July 31, 2002 plus all Shares to be issued upon redemption of the outstanding LP Units in IRET Properties by the selling shareholders named herein, assuming redemption of all outstanding LP Units in IRET Properties in exchange for Shares.

| Name of Selling Shareholder   | Amount Owned<br>Prior to Offering (1) | Amount Offered Hereby (2) |
|---|---------------------------------------|---------------------------|
| Alvin & Carolyn Aaseth  | 1,800                                 | 1,800                     |
| Alvin & Ann Abelstad, JTWROS  | 300                                   | 300                       |
| Hewes D. Agnew  | 52,991                                | 52,991                    |
| Bette Lu Anderson (3)   | 90,113                                | 84,685                    |
| C. Morris Anderson (4)  | 86,595                                | 86,485                    |
| Robert O. & Marianne J. Anderson, TC  | 36,991                                | 36,991                    |
| Loren Andreson  | 1,856                                 | 1,856                     |
| Norman H. Andrews   | 4,280                                 | 3,212                     |
| William Lee Arndt   | 37,450                                | 37,450                    |
| Jerome O. & Irene H. Askelson,<br>JTWROS  | 300                                   | 300                       |
| Ralph Atlas   | 38,730                                | 38,730                    |
| Richard Baertsch  | 80,310                                | 1,528                     |
| Daniel Baranick   | 2,284                                 | 2,284                     |
| Norma Baranick  | 2,284                                 | 2,284                     |
| Bascom Family Trust, Clifford William<br>&<br>Janet Longfellow Bascom, Trustees | 116,279                               | 116,279                   |
| Albert H. Bauer Living Trust, Albert H.<br>Bauer, Trustee                       | 19,847                                | 6,424                     |
| Leonard & Dianne Benfiet, JTWROS  | 300                                   | 300                       |
| Peter J. & Anna Berger, JT  | 10,724                                | 10,724                    |
| Catherine Bialis  | 309                                   | 309                       |

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| Marilyn K. Bigwood   | 3,686  | 600 |
| Melvin & Marie Boeshans Living Trust,<br>Melvin & Marie Boeshans, Trustees | 30,485 | 600 |

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| Name of Selling Shareholder  | Amount Owned<br>Prior to Offering (1) | Amount Offered Hereby (2) |
|--|---------------------------------------|---------------------------|
| Ronald Briggs  | 6,455                                 | 6,455                     |
| John & Jean Brown Estate Trust,<br>John & Jean Brown Trustees      | 5,349                                 | 4,320                     |
| Irene Buckner  | 2,284                                 | 2,284                     |
| Gene Buehner   | 25,581                                | 25,581                    |
| Ronald & Lowella Bushaw, JT  | 12,048                                | 11,722                    |
| Robert A. Buxton   | 28,137                                | 28,137                    |
| Phyllis & Alan Campbell, JTWROS                                    | 354                                   | 300                       |
| Ronald K. Carlson  | 120,809                               | 106,920                   |
| Edwin C. Carpenter   | 12,910                                | 12,910                    |
| Walter S. Carpenter  | 81,395                                | 81,395                    |
| John Caye  | 23,511                                | 23,511                    |
| Calvin T. & Marva Kirby Christian,<br>JTWROS                       | 150                                   | 150                       |
| Donald & Marcella Christianson,<br>JTWROS                          | 300                                   | 300                       |
| Timothy F. Corwin  | 7,718                                 | 7,718                     |
| Virginia Coughlin  | 12,897                                | 928                       |
| Gordon L. Cox  | 52,990                                | 52,990                    |
| Elvin C. Dahl Living Trust, Elvin C. &<br>Delores M. Dahl Trustees | 465                                   | 300                       |
| Dain Rauscher Incorporated FBO A.<br>James McArthur                | 53,460                                | 53,460                    |
| James J. Deibert   | 300                                   | 300                       |
| Fred & Paula Deigert   | 25,101                                | 25,101                    |
| Kurt A. Deter  | 3,000                                 | 3,000                     |
| Edward & Tillie Dobrinski, JTWROS                                  | 600                                   | 600                       |
| Edward & Tillie Dobrinski, TC                                      | 39,781                                | 300                       |
| Beatrice Dreyer  | 13,018                                | 300                       |
| E.L. Johnson Partners  | 144,983                               | 144,983                   |
| Francis D. Ellingson   | 2,761                                 | 2,456                     |
| Laurence Elm Family Trust U/Will<br>Beverly Elm Trustee            | 750                                   | 750                       |
| Arthur Emerson Trust, Roger Emerson,<br>Trustee                    | 6,488                                 | 6,488                     |
| Gordon F. & Elizabeth Emerson, TC                                  | 38,362                                | 12,976                    |
| Matelen C. Emerson   | 12,976                                | 12,976                    |
| Terry Enervold & Cheryl Enervold, JT                               | 16,691                                | 4,662                     |
| Edith J. Engberg   | 2,015                                 | 1,856                     |
| Margaret Engleson  | 309                                   | 309                       |

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|--|--------------|--------|
| Jay Enyart                             | 3,365        | 2,944  |
| Armond G. Erickson                     | 7,718        | 7,718  |
| Martin Evenrud                         | 42,788       | 1,200  |
| Daniel L. Feist (5)                    | (11) 630,999 | 1,856  |
| Charles Ferguson                       | 29,307       | 29,307 |
| Herman L. & Velma R. Fettig,<br>JTWROS | 2,009        | 300    |

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| Name of Selling Shareholder  | Amount Owned          |                           |
|--|-----------------------|---------------------------|
|  | Prior to Offering (1) | Amount Offered Hereby (2) |
| Arnold Fiedler   | 2,284                 | 2,284                     |
| Robert O. Field  | 2,284                 | 2,284                     |
| The Duane L. & MaryAnn Fields<br>Family Trust,<br>Duane L. & MaryAnn Fields,<br>Trustees   | 300                   | 300                       |
| Roy & Darlene Filler, TC   | 300                   | 300                       |
| First Prebyterian Church   | 50,257                | 1,200                     |
| James M. Fisher Grantor Retained<br>Annuity Trust, First Western Bank and<br>Trust Trustee | 295,812               | 295,812                   |
| Chauncey O. Frisbie  | 6,664                 | 6,664                     |
| F. Elizabeth Frisbie   | 2,944                 | 2,944                     |
| Helen Frost  | 6,689                 | 300                       |
| Shirley M. Frost   | 4,705                 | 1,500                     |
| Virgil R. Frost  | 13,035                | 300                       |
| Craig W. Gagnon  | 5,226                 | 4,573                     |
| Sandra R. Geiszler   | 354                   | 300                       |
| David Gellman  | 6,455                 | 6,455                     |
| Donald R. Givens   | 3,859                 | 3,859                     |
| Jerry & Karen Goetz, JTWROS  | 52,080                | 600                       |
| Elmer & Marion Gorde, JTWROS   | 300                   | 300                       |
| Jae Carmene Gross  | 3,212                 | 3,212                     |
| Gerald R. Grote  | 7,302                 | 7,302                     |
| Walters Group  | 35,031                | 35,031                    |
| Richard & Alice Gunter, TC   | 7,781                 | 7,781                     |
| Lois J. Gydesen  | 79,414                | 75,741                    |
| Gery & Palmyra Haag, JTWROS  | 300                   | 300                       |
| Richard & Mary Haenke, JTWROS  | 740                   | 740                       |
| Kimberly Rohrer Hale   | 2,156                 | 400                       |
| Duane Hanauer  | 35,266                | 35,266                    |
| Daryl B. Hanson  | 17,697                | 17,697                    |
| Ruth Hanson  | 300                   | 300                       |
| Robert M. & Shirley A. Haugen,<br>JTWROS   | 9,046                 | 7,185                     |
| Vernon & Delores Helm, JTWROS  | 485                   | 300                       |

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|--|--------------|---------|
| David A. Himmelman   | 12,910       | 12,910  |
| Theodore F. & Darlene Hochsprung, TC                                 | 300          | 300     |
| Lloyd & Betty Hoffer, JTWROS   | 88,557       | 87,273  |
| Bradley A. Holtan  | 29,260       | 20,161  |
| Dorothea M. Howey  | 928          | 928     |
| Bruce K. Hoyt Revocable Trust,<br>Bruce K. & Gayle J. Hoyt, Trustees | 75,275       | 75,275  |
| Bradley A. Hoyt  | 27,885       | 27,885  |
| Steven B. Hoyt (6)   | (12) 86,013  | 86,013  |
| Steven B. & Michelle L. Hoyt, TC (6)                                 | (12) 763,947 | 763,947 |
| Robert & Ardis Huizenga, JTWROS                                      | 9,248        | 300     |

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| Name of Selling Shareholder  | Amount Owned          |                           |
|--|-----------------------|---------------------------|
|  | Prior to Offering (1) | Amount Offered Hereby (2) |
| Leonard L. & Ida D. Hummel,<br>JTWROS                                | 13,423                | 13,423                    |
| Helen E. Hurly   | 27,373                | 600                       |
| Leo E. Irey Revocable Living Trust,<br>Leo E. Irey Trustee           | 50,336                | 1,856                     |
| J & L Family Limited Partnership                                     | 57,507                | 57,507                    |
| Margery Jangula  | 27,221                | 150                       |
| JAS & CO FBO Mike F. Dolan Trust<br>Agency                           | 105,995               | 5,240                     |
| Gary & Gayle Jeffrey, JTWROS   | 6,883                 | 600                       |
| James C. Jensen  | 30,980                | 30,872                    |
| The Carl E. Johnson Family Trust,<br>Norma G. Johnson Trustee        | 8,555                 | 8,555                     |
| The Norma G. Johnson Revocable<br>Trust,<br>Norma G. Johnson Trustee | 8,555                 | 8,555                     |
| Robert & Ellen Johnson, JTWROS                                       | 46,187                | 46,187                    |
| Vincent W. & Eunice J. Johnson,<br>JTWROS                            | 300                   | 300                       |
| Audrey Jones   | 6,488                 | 6,488                     |
| Arnold P. Kaplan   | 12,910                | 12,910                    |
| Clayton Kaufman Trust, Clayton &<br>Douglas Kaufman Trustees         | 6,455                 | 6,455                     |
| Irving & June Keating  | 13,852                | 600                       |
| Alvin H. Kenner  | 1,800                 | 1,800                     |
| Harris Kenner  | 2,128                 | 2,128                     |
| Clay B. King   | 1,543                 | 1,528                     |
| Kermit Kjonaas   | 300                   | 300                       |
| Eugene & Lorrain Klein   | 300                   | 300                       |
| James L. & Ruth M. Knutson, JTWROS                                   | 50,697                | 50,697                    |
| Calvin Krueger   | 106,920               | 106,920                   |
| Ernest & Louise Kunnanz, JTWROS                                      | 366                   | 300                       |



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|--|---------|---------|
| Jerome S. Lang                                 | 206,920 | 206,920 |
| Joseph I Langer C/O Barrett Moving             | 12,910  | 12,910  |
| Laurence J. & Bonnie J. Larson,<br>JTWROS      | 16,672  | 300     |
| Ardis Larson                                   | 7,038   | 928     |
| Gerald E. & Janet I. Lawson, JTWROS            | 928     | 928     |
| Clarence & Ann Lee, JTWROS                     | 9,676   | 300     |
| Dr. Kon-Hweii Lee                              | 1,228   | 1,228   |
| Dr. Kon-Hweii & Alice Shwu-Heuy<br>Lee, JTWROS | 1,856   | 1,856   |
| Peter J. & Minnie M. Lefor, JT                 | 12,528  | 12,528  |
| Florence Lehr                                  | 93,583  | 87,168  |
| Marvin Lehr                                    | 93,583  | 87,168  |
| Darrell & Susan Leier, TC                      | 943     | 900     |
| Marlo & Edith Lelm, JTWROS                     | 11,507  | 1,500   |
| Julia Lenertz                                  | 928     | 928     |

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| Name of Selling Shareholder  | Amount Owned<br>Prior to Offering (1) | Amount Offered Hereby (2) |
|--|---------------------------------------|---------------------------|
| Phillip L. Levin Trust, Phillip L. Levin<br>Trustee                      | 12,910                                | 12,910                    |
| Steven B. Liefshultz   | 12,196                                | 10,671                    |
| Liffrig Family Investments, LLP  | 16,901                                | 14,317                    |
| Darwin D. Lindberg   | 31,795                                | 31,795                    |
| Mary Lipp  | 25,480                                | 25,480                    |
| Hy Liss  | 12,910                                | 12,910                    |
| Liss Family Trust, Joseph M. & Adeline<br>N. Liss, Trustees              | 12,910                                | 12,910                    |
| Omar & Helen Locken, JTWROS  | 652                                   | 600                       |
| Ann Loder  | 1,228                                 | 1,228                     |
| Leroy & Ann Loder, JTWROS  | 2,284                                 | 2,284                     |
| Leroy & Ann Loder, TC  | 600                                   | 600                       |
| Leroy Loder  | 928                                   | 928                       |
| Robert L. & Patricia A. Lorentson  | 48,565                                | 44,604                    |
| Lowell Lundberg  | 7,834                                 | 7,718                     |
| Patsy McArthur   | 53,460                                | 53,460                    |
| Mary Mahoney Marital Trust, Meg<br>Mahoney, Trustee                      | 1,450                                 | 1,228                     |
| Mitchell Mahoney Family Trust, Meg<br>Mahoney, Trustee                   | 38,710                                | 2,284                     |
| Jack G. Marcil   | 3,859                                 | 3,859                     |
| Tamra I. Medina  | 10,163                                | 10,163                    |
| Jerome J. Mergen   | 21,400                                | 18,725                    |
| Arnold Merkel  | 2,284                                 | 2,284                     |
| J&M Miller Living Trust, John A. Miller<br>& Marlene A. Miller, Trustees | 57,839                                | 3,056                     |

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|---|---------|--------|
| Jeffrey Miller (7)  | 163,001 | 5,496  |
| Kenneth or Jeanette Miller, JTWROS  | 12,591  | 2,284  |
| Kenneth L. & Jeanette E. Miller Trust,<br>Kenneth L. & Jeannette E.<br>Miller, Trustees | 31,468  | 31,468 |
| Peggy Miller (8)  | 159,376 | 1,228  |
| Laurence & Agnes Mizeur, JTWROS   | 600     | 600    |
| Ernest Mock   | 17,582  | 2,284  |
| Karen Mock  | 400     | 400    |
| Ronald & Nancy Mongeon, JTWROS  | 4,592   | 300    |
| Helen Mork & Craig Mork, JTWROS   | 9,331   | 6,424  |
| Helen Mork & Deborah Branseky,<br>JTWROS  | 3,212   | 3,212  |
| Helen Mork & Linda Jundt, JTWROS  | 2,284   | 2,284  |
| Ronald A. Morton  | 64,225  | 2,000  |
| Richard L. Muus   | 1,450   | 1,228  |
| Burton G. Neff Revocable Trust,<br>Burton G. & Annette Neff Trustees                    | 7,620   | 6,455  |
| Adeline Neuharth Residuary Trust,<br>Hilmer Neuharth Trustee                            | 27,635  | 27,635 |

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| Name of Selling Shareholder  | Amount Owned          |                           |
|--|-----------------------|---------------------------|
|  | Prior to Offering (1) | Amount Offered Hereby (2) |
| Hilmer & Adeline L. Neuharth Trust,<br>Hilmer Neuharth Trustee         | 27,635                | 27,635                    |
| Andrew Nikitenko   | 6,321                 | 2,284                     |
| D. Michael Noonan  | 7,302                 | 7,302                     |
| North Dakota State Land Department<br>Unclaimed Property Division      | 309                   | 309                       |
| Delores Odell Living Trust, Roger R. or<br>Delores Odell Trustees (9)  | 287,832               | 199,935                   |
| Roger R. Odell Living Trust, Roger R.<br>or Delores Odell Trustees (9) | 115,271               | 97,906                    |
| Terrance W. Oehrlein   | 21,751                | 18,725                    |
| David C. & Kathleen B. Olson,<br>JTWROS                                | 3,278                 | 600                       |
| Oscar & Jean Olson, JTWROS   | 1,228                 | 1,228                     |
| Phyllis A. Olson Living Trust  | 600                   | 600                       |
| Vernon D. Olson Trust  | 5,735                 | 2,156                     |
| Nancy Oster  | 106,920               | 106,920                   |
| DeLaine M. Owen  | 18,182                | 18,182                    |
| Lillian M. Owen  | 18,182                | 18,182                    |
| Monica Paper   | 25,523                | 300                       |
| Parktown Partnership   | 37,450                | 37,450                    |
| Clayton & Bonnie Patterson, JTWROS                                     | 60,675                | 3,056                     |
| Clayton Patterson  | 2,884                 | 2,884                     |

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|  |              |         |
|--|--------------|---------|
| David & Lucille Paulson, JTWROS  | 300          | 300     |
| Frances M. Peerboom  | 45,208       | 18,248  |
| Pella Investments  | 61,248       | 61,248  |
| Dennis & Mary Peterson, JTWROS   | 354          | 300     |
| D. Duane Peterson  | 174,566      | 158,757 |
| Ronald & Ardis Petterson, JTWROS   | 14,815       | 14,815  |
| Bruce C. Pinkerton   | 52,990       | 52,990  |
| Jean L. Pringle  | 50,877       | 300     |
| The Protective Group Inc.  | (13) 479,150 | 479,150 |
| Mark Purdy   | 8,399        | 4,112   |
| The Evelyn I. Rechtzigel Trust,<br>Frank H. & Gene A. Rechtzigel,<br>Trustees                                  | 83,333       | 83,333  |
| Raymond Reich Family Limited<br>Liability Partnership  | 19,291       | 16,012  |
| Donald J. Rensch Family Protection<br>Trust,<br>Donald J. & Phyllis K. Rensch<br>Trustees                      | 42,228       | 35,795  |
| Gerald & Vivian Rensch, TC   | 2,130        | 1,828   |
| Harold Rensch & Jeanne Rensch, JT<br>Phyllis K Rensch Family Protection<br>Trust,<br>Donald J. Rensch, Trustee | 35,795       | 35,795  |
| Timothy Reuer  | 9,846        | 8,341   |
| George Richter   | 1,417        | 1,200   |
| Ridge Oaks Apartments, Ltd.  | 108,737      | 108,737 |
|  | 178,743      | 178,743 |

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| Name of Selling Shareholder  | Amount Owned          |                           |
|--|-----------------------|---------------------------|
|  | Prior to Offering (1) | Amount Offered Hereby (2) |
| Orrin V. Rinke   | 7,302                 | 7,302                     |
| Jay & Phyllis Ritland, JTWROS  | 331                   | 300                       |
| Henry Roath  | 3,475                 | 2,944                     |
| Richard L. Rosenberg   | 7,620                 | 6,455                     |
| Ralph D. Rudrud  | 7,718                 | 7,718                     |
| Robert E. Sage 1984 Revocable Living<br>Trust,<br>Robert E. Sage Trustee | 31,847                | 31,847                    |
| Joann Salley   | 928                   | 928                       |
| William & Joann Salley, JTWROS   | 300                   | 300                       |
| Dale & Arnola Savelkoul, JTWROS  | 300                   | 300                       |
| Dale & Arnola Savelkoul, TC  | 71,818                | 300                       |
| Leonard & Blanche Schaan   | 13,353                | 300                       |
| Bernard J. & Elaine Schaefer, TC   | 10,868                | 9,575                     |
| Joseph R. Schan  | 20,112                | 600                       |
|  | 300                   | 300                       |

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Edward Schmit Family Trust, Francis J.  
Schmit Trustee

|  |         |        |
|--|---------|--------|
| Dennis D. Schreffler   | 59,541  | 52,990 |
| Yvonne L. Schultz Living Trust, Yvonne<br>L. Schultz Trustee                 | 34,237  | 300    |
| Schulz Cottage Grove Partners  | 31,603  | 31,603 |
| Melvin A. & Ardella L. Score, TC   | 4,873   | 1,228  |
| Gertrude B. Sehl   | 62,534  | 62,534 |
| The Mary E. Shirley Trust, Mary E.<br>Shirley Trustee                        | 2,284   | 2,284  |
| Glenn H. & Janet M. Sivertson,<br>JTWROS                                     | 928     | 928    |
| Violet Skarphol Marital Trust,<br>Community First National Bank,<br>Trustee  | 7,718   | 7,718  |
| Doris Slaaten Trust, Doris<br>Slaaten, Trustee                               | 2,284   | 2,284  |
| Wayne O. & Patricia A. Solberg,<br>TWROS                                     | 1,062   | 900    |
| Arnold Soskin  | 12,910  | 12,910 |
| The Stebleton Family 1986 Trust,<br>Roger V. & H. Pat<br>Stebleton, Trustees | 94,752  | 94,752 |
| Estell Stillman  | 6,455   | 6,455  |
| Keith H. & Sally Stinson, JTWROS   | 928     | 928    |
| Keith H. Stinson   | 300     | 300    |
| Paul Storsteen   | 5,542   | 2,284  |
| Donald Streitz   | 24,970  | 600    |
| David W. & Joann M. Tanberg,<br>JTWROS                                       | 7,818   | 600    |
| Tarno Distributing   | 132,139 | 600    |
| Bernard H. Terhaar   | 41,763  | 41,763 |
| Shirley M. Terhaar   | 41,763  | 41,763 |

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| Name of Selling Shareholder         | Amount Owned<br>Prior to Offering (1) | Amount Offered Hereby (2) |
|-------------------------------------|---------------------------------------|---------------------------|
| David J. & Karen L. Theusch, JTWROS | 502                                   | 300                       |
| Laurence & Opal Thompson, TC        | 600                                   | 600                       |
| Laurence & Opal Thompson, JTWROS    | 900                                   | 900                       |
| Marguerite N. Thompson              | 14,271                                | 2,400                     |
| Mary Ellen Thompson                 | 113,056                               | 53,125                    |
| Keith & Janette Timmreck, JTWROS    | 19,256                                | 600                       |
| Violet Torno                        | 4,573                                 | 900                       |
| Tri-Dak                             | 19,905                                | 13,423                    |
| Roger Van Berkom                    | 2,284                                 | 2,284                     |
| Michael Vandall                     | 300                                   | 300                       |

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|   |         |         |
|---|---------|---------|
| VCI Partnership                                     | 192,613 | 192,613 |
| Barbara Voeller                                     | 9,184   | 400     |
| Donald Volkmuth                                     | 105,797 | 105,797 |
| Clive P. & Elizabeth P. Ware                        | 56,483  | 56,483  |
| G. Paul & A. Suzanne Ware, TC                       | 127,389 | 127,389 |
| Dr. Kevin & Kari Ware, TC                           | 157,082 | 157,082 |
| Stephen C. Weisberg                                 | 7,620   | 6,455   |
| Michael V. & Judy K. Welder, JTWROS                 | 58,594  | 900     |
| Fredric Wemlinger                                   | 14,043  | 14,043  |
| Thomas A. Wentz, Sr. (10)                           | 353,360 | 115,250 |
| Westbrand & Co FBO Larry & Marion<br>Knutson Agency | 928     | 928     |
| Gaila Willenbring                                   | 45,250  | 600     |
| Jerry D. Wolf                                       | 211,962 | 211,962 |

- (1) Represents Shares currently owned or issuable in exchange for an equal number of LP Units currently owned by the named selling shareholder.
- (2) Represents the number of Shares (rounded down to the nearest whole Share) that may be issued by us from time to time in exchange for an equal number of LP Units held by the named selling shareholder.
- (3) Mrs. Anderson is the wife of C. Morris Anderson.
- (4) Mr. Anderson is currently a Vice Chairman and member of our Board of Trustees. He has served as a Vice Chairman since 2000 and as a member of our Board of Trustees since 1971.
- (5) Mr. Feist is currently a Vice Chairman and member of our Board of Trustees. He has served as a Vice Chairman since 2000 and as a member of our Board of Directors since 1985.
- (6) Mr. Hoyt is currently a member of our Board of Trustees. He has served in such capacity since 2001. Mr. Hoyt is also the owner of Hoyt Properties, Inc., a company that manages certain of our commercial properties. We have acquired a total of nine properties from Mr. Hoyt or his affiliates during the last three years for cash, debt and LP Units in the following amounts:

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|                    |    |                   |
|--------------------|----|-------------------|
| Assumption of Debt | \$ | 27,741,219        |
| New Debt           |    | 13,660,000        |
| Cash               |    | 3,957,044         |
| OP Units           |    | <u>15,736,831</u> |
|                    | \$ | 61,095,094        |

- (7) Mr. Miller is currently the Chairman and a member of our Board of Trustees. He has served as chairman since 2000 and as a member of the Board of Trustees since 1985.
- (8) Mrs. Miller is the wife of Jeffrey Miller.

(9) Roger Odell is a Trustee of the Delores Odell Living Trust and the Roger R. Odell Living Trust. Mr. Odell served as our President and as a member of our Board of Trustees from our inception in 1971 to July 1, 2000. Mr. Odell was also a 50% owner of Odell-Wentz & Associates, L.L.C., the company who served as our advisor prior to July 1, 2000. Effective on July 1, 2000, we became self-advised as a result of the acquisition of Odell-Wentz & Associates, L.L.C. Currently, Mr. Odell has no relationship with the Company as an employee, officer or trustee.

(10) Mr. Wentz, Sr. is currently our President and Chief Executive Officer. He has served in such positions since July 1, 2000. Mr. Wentz was also a 50% owner of Odell-Wentz & Associates, L.L.C.

(11) Represents approximately 1.6% of the sum of our total Shares outstanding as of July 31, 2002 plus all Shares to be issued upon redemption of the outstanding LP Units in IRET Properties by the selling shareholders named herein, assuming redemption of all outstanding LP Units in IRET Properties in exchange for Shares.

(12) The aggregate number of Shares owned individually by Mr. Hoyt and as a tenant in common with his wife represents approximately 2.2% of the sum of our total Shares outstanding as of July 31, 2002 plus all Shares to be issued upon redemption of the outstanding LP Units in IRET Properties by the selling shareholders named herein, assuming redemption of all outstanding LP Units in IRET Properties in exchange for Shares.

(13) Represents approximately 1.2% of the sum of our total Shares outstanding as of July 31, 2002 plus all Shares to be issued upon redemption of the outstanding LP Units in IRET Properties by the selling shareholders named herein, assuming redemption of all outstanding LP Units in IRET Properties in exchange for Shares.

## PLAN OF DISTRIBUTION

Once the selling shareholders have exchanged their LP Units for Shares, they may, from time to time, in one or more transactions, offer and sell all or a portion of their Shares that are covered by this Prospectus. We are registering the Shares covered by this Prospectus for resale to provide the transferees of the selling shareholders with freely tradable securities. Registration does not, however, necessarily mean that the selling shareholders will offer and sell any of their Shares.

Certain selling shareholders are subject to restrictions on the redemption of their LP Units for cash or Shares. Specifically, E.L. Johnson Partners and George Richter, collectively, may not redeem LP Units for cash or Shares worth more than \$600,000 per calendar quarter or, individually, may not redeem LP Units for cash or Shares worth more than \$100,000 per calendar quarter; G. Paul & A. Suzanne Ware, TC, may not redeem LP Units for cash or Shares worth more than \$1 million in any calendar year; Jerome Lang, Calvin Krueger, A. James McArthur, Patsy McArthur, Ronald Carlson, Nancy Oster and Robert Buxton, individually, may not redeem more than one-fifth of their LP Units for cash or Shares in any calendar year; Ralph Atlas, Ronald Briggs, Edwin Carpenter, David Gellman, David Himmelman, the Clayton Kaufman Trust, Joseph Langer, the Phillip Levin Trust, Hy Liss, the Liss Family Trust, the Burton Neff Revocable Trust, Richard Rosenberg, Estelle Stillman, Stephen Weisberg and Arnold

Soskin, individually, may not redeem more than one-third of their LP Units for cash or Shares in any calendar year; and Steve Hoyt may not redeem more than five percent (5%) of his LP Units in any calendar quarter.

The selling shareholders, or their pledgees, donees, transferees or other successors in interest, may offer and sell the Shares covered by this Prospectus in the following manner:

- on the Nasdaq National Market or other quotation system or national exchange on which the Shares are listed or traded at the time of sale;
- in the over-the-counter market;
- in privately negotiated transactions;
- in underwritten transactions;
- or otherwise; at prices then prevailing or related to the then current market price or at negotiated prices.

The offering price of the Shares covered by this Prospectus and offered from time to time will be determined by the selling shareholders and, at the time of determination, may be higher or lower than the market price of the Shares on the Nasdaq National Market.

In connection with an underwritten offering, underwriters or agents may receive compensation in the form of discounts, concessions or commissions from a selling shareholder or from purchasers of offered Shares for whom they may act as agents, and underwriters may sell offered Shares to or through dealers, and such dealers may receive compensation in the form of discounts, concessions or commissions from the underwriters and/or commissions from the purchasers from whom they may act as agents.

Offered Shares may be sold directly or through broker-dealers acting as principal or agent, or pursuant to a distribution by one or more underwriters on a firm commitment or best-efforts basis. The methods by which offered Shares may be sold include:

- a block trade in which the broker-dealer so engaged will attempt to sell offered Shares as agent but may position and resell a portion of the block as principal to facilitate the transaction;
- purchases by a broker-dealer as principal and resale by such broker-dealer for its own account pursuant to this Prospectus;
- ordinary brokerage transactions and transactions in which the broker solicits purchases;
- an exchange distribution in accordance with the rules of the exchange or quotation system; privately negotiated transactions; and
- underwritten transactions.

The selling shareholders and any underwriters, dealer or agents participating in the distribution of offered Shares may be deemed to be underwriters within the meaning of the Securities Act. Any profit on the sale of offered Shares by the selling shareholders and any commissions received by any such broker-dealers may be deemed to be underwriting commissions under the Securities Act.

When a selling shareholder elects to make a particular offer of Shares, a prospectus supplement, if required, will be distributed that identifies any underwriters, dealers or agents and any discounts, commissions and other terms constituting compensation from such selling shareholder and any other required information.

In order to comply with state securities laws, if applicable, offered Shares may be sold only through registered or licensed brokers or dealers. In addition, in certain states, offered Shares may not be sold unless they have been registered or qualified for sale in such state or an exemption from such registration or qualification requirement is available and complied with.

We have agreed to pay all costs and expenses incurred in connection with the registration under the Securities Act of the Shares covered by this Prospectus, including, but not limited to, all registration and filing fees, printing expenses and fees and disbursements of our legal counsel and accountants. The selling shareholders will pay any brokerage fees and commissions, fees and disbursements of legal counsel for the selling shareholders and stock transfer and other taxes attributable to the sale of Shares covered by this Prospectus.

## **DESCRIPTION OF SHARES OF BENEFICIAL INTEREST**

### **General**

The securities being offered pursuant to this Prospectus are our Shares. As of the effective date of this Prospectus, which is listed on the front cover, each Share has the rights and benefits outlined below. Unless otherwise noted, none of the items listed may be changed without notice to, and the affirmative vote of, a majority of the outstanding Shares.

### **Dividend, Voting and Other Rights**

Our Shares are of one class, without par value. All Shares participate equally in dividends and distributions, when and as declared by the members of our Board of Trustees, and in net assets upon liquidation. All Shares are fully paid and non-assessable upon issuance and have no preference, conversion, exchange, pre-emptive or redemption rights.

Shareholders are entitled to one vote for each Share registered in his, her or its name. With respect to the election of members of our Board of Trustees, the Shares have cumulative voting rights, which allow each shareholder one vote for each Share registered in his, her or its name for as many members as there are to be elected to our Board of Trustees.

### **Ownership and Transfer Restrictions**

The Shares are fully transferable and alienable subject only to certain restrictions that are intended to maintain our status as a REIT. To insure compliance with the Code provision that provides that no more than 50% of the outstanding Shares may be owned by five or fewer individuals, we may, at any time, redeem Shares from any shareholder at the fair market value thereof as determined by us in good faith and based on an independent appraisal of our assets made within six months of the redemption date. Additionally, we may refuse to transfer Shares to any person whose acquisition of additional Shares might, in our opinion, violate such Code requirement. Since our formation in 1970, we have never imposed the restrictions on transfer or redeemed any of our Shares pursuant to these restrictions.

### **Senior Securities**

As of April 30, 2002, we had \$25.2 million worth of investment certificates issued and outstanding. Such securities, which are issued for a definite term and annual interest rate, are senior to the Shares offered for sale in this Prospectus. In the event that we cease operations or liquidate and distribute all of our assets, the holders of such investment certificates would be paid in full before any money is distributed to the holders of our Shares. In April 2002, we discontinued our investment certificate program. No additional investment certificates will be issued and those outstanding as of April 30, 2002, will be redeemed upon maturity.

### **Authorized Shares and Shares Currently Outstanding**

Our Second Restated Declaration of Trust authorizes us to issue an unlimited number of Shares. As of April 30, 2002 there were 27,847,079 Shares outstanding. No shareholder held five percent or more of such Shares



as of that date. We have no other classes of stock and, as of April 30, 2002, there were no warrants, stock options or other contractual arrangements, other than the LP Units, requiring the issuance of Shares or other stock.

## CERTAIN TAX CONSIDERATIONS

### Considerations Regarding IRET and its Shareholders

*Federal Income Taxation.* Since our organization, we have operated in a manner intended to qualify as a REIT under Sections 856-858 of the Code. Under such Code Sections, a REIT that meets certain requirements will not be subject to Federal income tax with respect to income that it distributes to its shareholders. Rather all such income will be taxed at the shareholder level. In order to be considered a REIT for purposes of the Federal income tax laws, we must continue to meet the requirements of those Sections of the Code, including the following:

- (i) At the end of each fiscal quarter, at least 75% of our total assets must consist of real estate, cash and cash items (including receivables), and government securities. As to non-real estate investments, which may not exceed 25% of our total assets, the securities that we own in any one issuer may not represent more than five percent of the value of our assets or more than ten percent of the total value or voting power of that issuer.
- (ii) At least 75% of our gross income for the taxable year must be derived from real estate rents or mortgages or other specified real estate related activities.
- (iii) Beneficial ownership of our Shares must be held by 100 or more persons during at least 335 days of each 12-month taxable year. More than 50% of the outstanding Shares may not be owned, directly or indirectly, by or for, five or fewer individuals, at any time during the last half of the taxable year.

As a REIT, we will not be taxed on that portion of our taxable income that is distributed to our shareholders, provided that at least 90% of our taxable income is distributed. To the extent that there is undistributed taxable income or undistributed capital gain income, we will be taxed as a domestic corporation at corporate income tax rates. However, we may retain some or all of our net capital gain without incurring double taxation. If we elect to do this, we are taxed on the amount we designate as retained capital gain at the capital gains rate generally applicable to corporations. Our shareholders then must include in their income their proportionate share of the undistributed capital gain in income as long-term capital gain. In this case the shareholder is deemed to have paid the shareholder's share of the tax we paid, and is entitled to a credit for this amount on the shareholder's income tax return. In addition, the shareholder's basis in the shareholder's Shares is increased by the amount of the undistributed long-term capital gains taxed to the shareholder, less the amount of capital gains tax we paid on those capital gains. As a REIT, we will not be entitled to carry back or carry forward any net operating losses with respect to the income taxed to us.

So long as we have met the statutory requirements for taxation as a REIT, distributions made to our shareholders will be taxed to such shareholders as ordinary income or long-term capital gain. Distributions will not be eligible for the dividends received deduction for corporations. We will notify each shareholder as to that portion of the distributions which, in the opinion of our counsel, constitutes ordinary income or capital gain. The shareholders

may not include in their individual income tax returns any of our operating or extraordinary losses, whether ordinary or capital.

If we do not qualify as a REIT for any taxable year, we will be taxed as a domestic corporation, and we will not be able to deduct distributions to our shareholders in computing our taxable income. Such distributions, to the extent made out of our current or accumulated earnings and profits, would be taxable to the shareholders as dividends, but would be eligible for the dividends received deduction for corporations.

In the opinion of the law firm of Pringle & Herigstad, P.C., we have conducted our operations in such a manner to qualify as a REIT. Treasury Regulations issued under the Code require that the members of our Board of Trustees have continuing exclusive authority over our management, the conduct of our affairs and, with certain limitations, the management and disposition of the property we own. Our Board of Trustees intends to adopt any

amendments to our Second Restated Declaration of Trust that may be necessary in order for us to continue to operate as a REIT. Any amendments to our Second Restated Declaration of Trust that are required in order for us to remain qualified as a REIT may be made by the Board of Trustees without notice to, or a vote of, the shareholders.

*Taxation of Our Shareholders.* Distributions made to our shareholders out of current or accumulated earnings and profits will be taxed to the shareholders as ordinary income. Distributions that are designated as capital gain dividends will generally be taxed as long-term capital gains to the extent they do not exceed our actual net capital gain income for the taxable year. Distributions to a shareholder in excess of current or accumulated earnings and profits will be treated as a nontaxable return of capital to the extent that they do not exceed the adjusted basis of a shareholder's Shares. If distributions in excess of current or accumulated earnings and profits exceed the adjusted basis of a shareholder's Shares, the distributions will be included in the shareholder's income as long-term or short-term capital gain (assuming the Shares are held as a capital asset in the hands of the shareholder).

We will notify shareholders at the end of each year as to the portions of the distributions that constitute ordinary income, net capital gain or return of capital. Any dividend declared by us during the months of October, November or December of any year payable to a shareholder of record on a specified date in any such month will be treated as both paid by us and received by the shareholder on December 31 of such year, even though the dividend may not actually be paid by us until January of the following calendar year.

In addition, as described earlier, if we retain some or all of our net capital gain and elect to avoid double tax on these gains, we will be taxed on the amount so designated at the capital gains rate generally applicable to corporations. A Shareholders then must include the shareholder's proportionate share of these undistributed capital gains in income as long-term capital gain. The shareholders are deemed to have paid their share of the tax we paid, and they may claim a credit for this amount on their income tax returns. In addition, the tax of in the shareholder's Shares is increased by the amount of such undistributed long-term capital gains taxed to the shareholder, less the amount of capital gains tax we paid on those capital gains.

In general, any gain or loss upon a sale or exchange of Shares by a shareholder who has held such Shares as a capital asset will be long-term or short-term, depending on whether the stock was held for more than one year; provided, however, that any loss on the sale or exchange of Shares that have been held by such shareholder for six months or less will be treated as a long-term capital loss to the extent that distributions from us are required to be treated by such shareholders as long-term capital gain.

*State and Local Income Taxation.* Since we qualify as a REIT for purposes of the Federal income tax laws, we generally are not subject to state income tax on that portion of our taxable income that is distributed to our shareholders. Shareholders, however, may be subject to taxation on distributions we make to them depending on the state or local jurisdiction of residence of the shareholder. Prospective shareholders should consult their tax advisors for an explanation of how state and local tax laws could affect their investment.

*Taxation of IRAs, 401(k)s and Other Pension and Profit-sharing Trusts, and Other Tax-exempt Shareholders.* Amounts distributed as dividends by a qualified REIT generally do not constitute unrelated business taxable income (UBTI) when received by a tax-exempt entity. As a consequence, the dividend income received from us should not, subject to certain exceptions described below, be UBTI to a pension or profit-sharing trust, 401(k), IRA or other tax-exempt entity (a Tax-Exempt Shareholder), provided that (i) the Tax-Exempt Shareholder has not held its Shares as debt-financed property within the meaning of the Code, (ii) the Shares are not otherwise used in an unrelated trade or business of the Tax-Exempt Shareholder, or (iii) in the case of a pension or profit-sharing trust (A) the trust does not hold more than 25% by value of the interests in us or (B) the trust does not hold more than 10% by value of the interests in us unless the total holdings of all pension or profit-sharing trusts holding more than 10% by value is not more than 50% by value of the interests in us. Similarly, income from the sale of Shares should not, subject to certain exceptions described below, constitute UBTI unless the Tax-Exempt Shareholder has held such Shares as a dealer (under Section 512(b)(5)(B) of the Code) or as debt-financed property within the meaning of Section 514 of the Code.

With respect to Tax-Exempt Shareholders that are social clubs, voluntary employee benefit associations, supplemental unemployment benefit trusts and qualified group legal services plans exempt from federal income taxation under Sections 501(c)(7), (9), (17) and (20) of the Code, respectively, income from an investment in us will

constitute UBTI unless the organization is able to deduct amounts set aside or placed in reserve for certain purposes so as to offset the income generated by its investment in us. Such prospective investors should consult their tax advisors concerning these set-aside and reserve requirements.

*Reporting to the IRS and Backup Withholding.* We will report to our shareholders and the Internal Revenue Service the amount of dividends paid during each calendar year and the amount of tax withheld, if any. Under the backup withholding rules, a shareholder may be subject to backup withholding, currently at the rate of 30%, with respect to dividends paid, unless such holder: (i) is a corporation or comes within certain other exempt categories and, when required, demonstrates this fact, or (ii) provides a correct taxpayer identification number, certifies as to no loss of exemption from backup withholding and otherwise complies with applicable requirements of the backup withholding rules. A shareholder that does not provide us with a correct taxpayer identification number may be subject to penalties imposed by the Internal Revenue Service. Any amount paid as backup withholding will be creditable against the shareholder's income tax liability. In addition, we may be required to withhold a portion of capital gain distributions to any shareholder who fails to certify their non-foreign status to us.

### **Tax Treatment of IRET Properties and Its Limited Partners**

The following discussion summarizes certain federal income tax considerations applicable to IRET's investment in IRET Properties. The discussion does not cover state or local tax laws or any federal tax laws other than income tax laws.

We will include in our income our share of IRET Properties' income and deduct our share of IRET Properties' losses only if IRET Properties is classified for federal income tax purposes as a partnership rather than as a

corporation or an association taxable as a corporation.

We have not requested, and do not intend to request, a ruling from the IRS that IRET Properties will be classified as a partnership for federal income tax purposes. Instead, based on certain factual assumptions and representations we have made and on currently applicable Treasury Regulations under Section 7701 of the Code, Pringle & Herigstad, P.C., is of the opinion that IRET Properties will be treated for federal income tax purposes as a partnership. Further, based on certain factual assumptions and representations we have made, Pringle & Herigstad, P.C., is of the opinion that IRET Properties will not be a publicly traded partnership. Unlike a tax ruling, an opinion of counsel is not binding upon the IRS, and no assurance can be given that the IRS will not challenge the status of IRET Properties as a partnership for federal income tax purposes. If a court sustained such a challenge, IRET Properties would be treated as a corporation for federal income tax purposes, as described below. In addition, the opinion of Pringle & Herigstad, P.C., is based on existing law. No assurance can be given that administrative or judicial changes would not modify the conclusions expressed in the opinion.

If for any reason IRET Properties was taxable as a corporation, rather than a partnership, for federal income tax purposes, we would not be able to qualify as a REIT. In addition, any change in the IRET Properties' status for tax purposes might be treated as a taxable event, in which case we might incur a tax liability without any related cash distribution. Further, items of income and deduction of IRET Properties would not pass through to its partners, and its partners would be treated as shareholders for tax purposes. Additionally, IRET Properties would be required to pay income tax at corporate tax rates on its net income, and distributions to its partners would constitute dividends that would not be deductible in computing IRET Properties' taxable income.

#### **Income Taxation of IRET Properties and its Partners**

*Partners, Not IRET Properties, Subject to Tax.* A partnership is not a taxable entity for Federal income tax purposes. As such, we will be required to take into account our allocable share of income, gains, losses, deductions and credits from IRET Properties for any taxable year ending within, or with, our taxable year, without regard to whether we have received, or will receive, any distributions.

*Partnership Allocation Income, Losses and Capital Gain.* Although a partnership agreement generally will determine the allocation of income and losses among partners, such allocations will be disregarded for tax purposes under Section 704(b) of the Code if they do not comply with the provisions of Section 704(b) of the Code and the Treasury Regulations promulgated thereunder. If an allocation is not recognized for Federal income tax purposes,

the item subject to the allocation will be reallocated in accordance with the partners' interests in the partnership, which will be determined by taking into account all of the facts and circumstances relating to the economic arrangement of the partners with respect to such item. IRET Properties' allocations of taxable income and loss are intended to comply with the requirements of Section 704(b) of the Code and the Treasury Regulations promulgated thereunder.

*Tax Allocations with Respect to Contributed Property.* Pursuant to Section 704(c) of the Code, income, gain, loss and deductions that are attributable to appreciated or depreciated property contributed to a partnership in exchange for an interest in the partnership must be allocated for Federal income tax purposes in a manner such that the contributor is charged with, or benefits from, the unrealized gain or unrealized loss associated with the property at the time of the contribution. The amount of such unrealized gain or unrealized loss is generally equal to the difference between the fair market value of the contributed property at the time of contribution and the adjusted tax basis of such property at the time of contribution. The Treasury Department has issued regulations requiring partnerships to use a

reasonable method for allocating items affected by Section 704(c) of the Code, and outlining several reasonable allocation methods. IRET Properties plans to elect to use the traditional method for allocating Code Section 704(c) items with respect to the properties it acquires in exchange for LP Units.

Under the limited partnership agreement of IRET Properties, depreciation or amortization deductions will be allocated among the partners in accordance with their respective interests. In addition, gain on the sale of a property contributed to IRET Properties by a limited partner in exchange for LP Units will be specially allocated to such limited partner to the extent of any built-in gain with respect to the property. Depending on the allocation method elected under Code Section 704(c), it is possible that: (i) we may be allocated lower amounts of depreciation deductions for tax purposes with respect to contributed properties than would be allocated to us if such properties were to have a tax basis equal to their fair market value at the time of contribution, and (ii) we may be allocated taxable gain in the event of a sale of such contributed properties in excess of the economic profit allocated to us as a result of such sale. These allocations may cause us to recognize taxable income in excess of cash proceeds, which may adversely affect our ability to comply with the REIT distribution requirements. This situation has not occurred in the past, and we do not currently have any reason to believe it will occur in the future.

The allocation rules may also affect the calculation of our earnings and profits for purposes of determining the portion of our distributions that are taxable as a dividend. The allocations described in this paragraph may result in a higher portion of our distributions being taxed as a dividend than would have occurred had we purchased the properties for cash.

*Tax Basis in IRET Properties.* In general, our adjusted tax basis of our partnership interest in IRET Properties is equal to: (i) the amount of cash and the basis of any other property that we contribute to IRET Properties, (ii) increased by our share of income and indebtedness, and (iii) reduced, but not below zero, by our share of the loss and the amount of cash and the basis of any other property distributed to us.

If the allocation of our share of loss would reduce the adjusted tax basis of our partnership interest in IRET Properties below zero, the recognition of such loss will be deferred until such time as the recognition of such loss would not reduce our adjusted tax basis below zero. To the extent that cash distributions, or any decrease in our share of the indebtedness, would reduce our adjusted tax basis below zero, the excess distributions (after our adjusted tax basis has been reduced to zero) will constitute taxable income to us. Such income normally will be characterized as capital gain, and, if our partnership interest in IRET Properties has been held for longer than the long-term capital gain holding period, the income will constitute long-term capital gain.

*Sale of Real Estate.* Generally, any gain realized by IRET Properties on the sale of property held for more than one year will be long-term capital gain, except for any portion of such gain that is treated as depreciation or cost recovery recapture.

Any gain recognized on the disposition of a particular property contributed by a partner in exchange for limited partnership will be allocated first to such contributing partner under Section 704(c) of the Code to the extent of such contributing partner's built-in gain. Any remaining gain will be allocated among the partners in accordance with their respective ownership percentage interests in IRET Properties.

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The following is a discussion of material considerations arising under the Employee Retirement Income Security Act of 1974, as amended ( ERISA ), and the prohibited transaction provisions of Section 4975 of the Code that may be relevant to a prospective purchaser. The discussion does not purport to deal with all aspects of ERISA or Section 4975 of the Code that may be relevant to particular shareholders in light of their particular circumstances.

The discussion is based on current provisions of ERISA and the Code and any change in the current law may render this discussion incorrect.

A fiduciary of a pension, profit-sharing, other employee benefit plan, IRA or 401(k) plan subject to Title I of ERISA should carefully consider whether an investment in our Shares is consistent with his or her fiduciary responsibilities under ERISA. In particular, the fiduciary requirements of Part 4 of Title I of ERISA require an ERISA Plan's investments to be: (i) prudent and in the best interests of the ERISA Plan's participants and beneficiaries, (ii) diversified in order to minimize the risk of large losses, unless it is clearly prudent not to do so, and (iii) authorized under the terms of the ERISA Plan's governing documents insofar as such documents are consistent with the provisions of Title I and Title IV of ERISA.

*Status of IRET and IRET Properties under ERISA.* The following section discusses certain principles that apply in determining whether the fiduciary and prohibited transaction provisions of ERISA and the Code apply to us or IRET Properties because one or more shareholders may be an ERISA Plan, a Non-ERISA Plan or an IRA subject to such prohibited transactions provisions of Section 4975 of the Code.

If our assets are deemed to be plan assets under ERISA: (i) the prudence standards and other provisions of Part 4 of Title I of ERISA would be applicable to any transactions involving our assets, (ii) persons who exercise any authority over our assets, or who provide investment advice to us, would (for purposes of fiduciary responsibility provisions of ERISA) be fiduciaries of each ERISA Plan that acquires our Shares, and transactions involving our assets undertaken at their direction or pursuant to their advice might violate their fiduciary responsibilities under ERISA, especially with regard to conflicts of interest, (iii) a fiduciary exercising his investment discretion over the assets of an ERISA Plan to cause it to acquire or hold our Shares could be liable under Part 4 of Title I of ERISA for transactions entered into by us that do not conform to ERISA standards of prudence and fiduciary responsibility, and (iv) certain transactions that we might enter into in the ordinary course of its business and operations might constitute prohibited transactions under ERISA and the Code.

Regulations of the Department of Labor ( DOL ) provide that the ERISA rules do not apply in the case of a security which is a publicly-offered security. The Plan Asset Regulations define a publicly-offered security as a security that is widely-held, freely transferable and either part of a class of securities registered under the Exchange Act, or sold pursuant to an effective registration statement under the Securities Act. The DOL regulations provide that a security is widely-held only if it is part of a class of securities that is owned by 100 or more investors independent of the issuer and of one another. As of April 30, 2001, we had approximately 5,000 shareholders and, therefore, we are of the opinion that our Shares are now, and will be, widely held.

The Plan Asset Regulations provide that whether a security is freely transferable is a factual question to be determined on the basis of all relevant facts and circumstances. We currently impose only the following restrictions on transfer of our Shares:

Our Second Restated Declaration of Trust provides that to insure compliance with the Internal Revenue Code provision that no more than 50% of the outstanding Shares may be owned by five or fewer individuals, the Trustees may at any time redeem Shares from any Shareholder at the fair market value thereof (as determined in good faith by the Trustees based on an independent appraisal of Trust assets made within six months of the redemption date). Also, the Trustee may refuse to transfer Shares to any Person whose acquisition of additional Shares might, in the opinion of the Trustees, violate the above requirement.

We are not aware of any other facts or circumstances limiting the transferability of our Shares that are not enumerated in the Plan Asset Regulations as those not affecting free transferability.

Assuming that our Shares will be widely held, and that no other facts and circumstances other than those referred to in the preceding paragraph exist that restrict transferability, it is our opinion that our Shares should be publicly offered securities and the our assets should not be deemed to be plan assets of any ERISA Plan, IRA or Non-ERISA Plan that invests in our Shares of beneficial ownership.

### LEGAL MATTERS

The validity of the Shares offered by this Prospectus and other legal matters will be passed upon for us by Pringle & Herigstad, P.C., Minot, North Dakota.

### EXPERTS

Our consolidated financial statements and schedule, as of April 30, 2002 and 2001, and the statements of income, shareholders equity and cash flows of the Company for each of the three most recent fiscal years ended April 30, have been incorporated herein by reference in reliance on the reports of Brady Martz & Associates, P.C., Minot, North Dakota, independent accountants, and upon the authority of said firm as experts in accounting and auditing.

**No dealer, sales representative or any other person has been authorized to give any information or to make any representations other than those contained in this Prospectus in connection with the offer and sale of Shares covered by this Prospectus and, if given or made, such information or representations must not be relied upon as having been authorized by us. This Prospectus does not constitute an offer to sell, or the solicitation of any offer to buy, any security other than the securities offered by this Prospectus, nor does it constitute an offer to sell or a solicitation of any offer to buy the securities offered hereby by anyone in any jurisdiction in which such offer or solicitation is not authorized, or in which the person making such offer or solicitation is not qualified to do so, or to any person to whom it is unlawful to make such offer or solicitation. Neither the delivery of this Prospectus nor any sale made hereunder shall, under any circumstances, create any implication that information contained herein is correct as of any time subsequent to the date hereof.**

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**7,214,547 Shares**

**[IRET LOGO]**

**INVESTORS REAL ESTATE TRUST  
Shares of Beneficial Interest**

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**PROSPECTUS**  
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