

INVESTORS REAL ESTATE TRUST

Form 10-Q

September 08, 2016

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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 July 31, 2016

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)

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

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

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 September 1, 2016, was 121,531,431.

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## PART I

## ITEM 1. FINANCIAL STATEMENTS - FIRST QUARTER - FISCAL 2017

## INVESTORS REAL ESTATE TRUST AND SUBSIDIARIES

## CONDENSED CONSOLIDATED BALANCE SHEETS (unaudited)

	(in thousands, except share data)	
	July 31, 2016	April 30, 2016
<b>ASSETS</b>		
Real estate investments		
Property owned	\$ 1,667,442	\$ 1,681,471
Less accumulated depreciation	(319,087)	(312,889)
	1,348,355	1,368,582
Development in progress	27,454	51,681
Unimproved land	18,933	20,939
Total real estate investments	1,394,742	1,441,202
Assets held for sale and assets of discontinued operations	215,817	220,537
Cash and cash equivalents	54,438	66,698
Other investments	—	50
Receivable arising from straight-lining of rents, net of allowance of \$285 and \$333, respectively	7,683	7,179
Accounts receivable, net of allowance of \$144 and \$97, respectively	3,018	1,524
Prepaid and other assets	2,265	2,937
Intangible assets, net of accumulated amortization of \$6,916 and \$6,230, respectively	1,172	1,858
Tax, insurance, and other escrow	4,752	5,450
Property and equipment, net of accumulated depreciation of \$1,129 and \$1,058, respectively	977	1,011
Goodwill	1,680	1,680
Deferred charges and leasing costs, net of accumulated amortization of \$3,919 and \$3,719, respectively	4,999	4,896
<b>TOTAL ASSETS</b>	<b>\$ 1,691,543</b>	<b>\$ 1,755,022</b>
<b>LIABILITIES, REDEEMABLE NONCONTROLLING INTERESTS AND EQUITY</b>		
<b>LIABILITIES</b>		
Liabilities held for sale and liabilities of discontinued operations	\$ 76,195	\$ 77,488
Accounts payable and accrued expenses	41,797	39,727
Revolving line of credit	17,500	17,500
Mortgages payable, net of unamortized loan costs of \$4,544 and \$4,930, respectively	812,082	812,393
Construction debt and other	78,481	82,130
<b>TOTAL LIABILITIES</b>	<b>1,026,055</b>	<b>1,029,238</b>
<b>COMMITMENTS AND CONTINGENCIES (NOTE 6)</b>		
<b>REDEEMABLE NONCONTROLLING INTERESTS – CONSOLIDATED REAL ESTATE ENTITIES</b>	<b>7,468</b>	<b>7,522</b>

## EQUITY

Investors Real Estate Trust shareholders' equity		
Series A Preferred Shares of Beneficial Interest (Cumulative redeemable preferred shares, no par value, 1,150,000 shares issued and outstanding at July 31, 2016 and April 30, 2016, aggregate liquidation preference of \$28,750,000)	27,317	27,317
Series B Preferred Shares of Beneficial Interest (Cumulative redeemable preferred shares, no par value, 4,600,000 shares issued and outstanding at July 31, 2016 and April 30, 2016, aggregate liquidation preference of \$115,000,000)	111,357	111,357
Common Shares of Beneficial Interest (Unlimited authorization, no par value, 121,527,837 shares issued and outstanding at July 31, 2016, and 121,091,249 shares issued and outstanding at April 30, 2016)	922,698	922,084
Accumulated distributions in excess of net income	(482,264)	(442,000)
Total Investors Real Estate Trust shareholders' equity	579,108	618,758
Noncontrolling interests – Operating Partnership (16,285,239 units at July 31, 2016 and 16,285,239 units at April 30, 2016)	73,071	78,484
Noncontrolling interests – consolidated real estate entities	5,841	21,020
Total equity	658,020	718,262
TOTAL LIABILITIES, REDEEMABLE NONCONTROLLING INTERESTS AND EQUITY	\$ 1,691,543	\$ 1,755,022

See accompanying Notes to Condensed Consolidated Financial Statements.

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## INVESTORS REAL ESTATE TRUST AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited)

for the three months ended July 31, 2016 and 2015

	(in thousands, except per share data)	
	Three Months Ended	
	July 31,	
	2016	2015
REVENUE		
Real estate rentals	\$ 44,985	\$ 40,750
Tenant reimbursement	4,626	4,295
TOTAL REVENUE	49,611	45,045
EXPENSES		
Property operating expenses, excluding real estate taxes	16,057	13,488
Real estate taxes	5,577	4,816
Depreciation and amortization	14,267	11,217
Impairment of real estate investments	54,153	1,285
General and administrative expenses	2,606	2,454
Acquisition and investment related costs	43	7
Other expenses	852	417
TOTAL EXPENSES	93,555	33,684
Operating (loss) income	(43,944)	11,361
Interest expense	(10,364)	(7,814)
Interest income	572	556
Other income	473	51
(Loss) income before gain (loss) on sale of real estate and other investments, and income from discontinued operations	(53,263)	4,154
Gain (loss) on sale of real estate and other investments	8,958	(175)
(Loss) income from continuing operations	(44,305)	3,979
Income from discontinued operations	3,711	748
NET (LOSS) INCOME	(40,594)	4,727
Net loss (income) attributable to noncontrolling interests – Operating Partnership	3,296	(186)
Net loss (income) attributable to noncontrolling interests – consolidated real estate entities	15,655	(1)
Net (loss) income attributable to Investors Real Estate Trust	(21,643)	4,540
Dividends to preferred shareholders	(2,879)	(2,879)
NET (LOSS) INCOME AVAILABLE TO COMMON SHAREHOLDERS	\$ (24,522)	\$ 1,661
(Loss) earnings per common share from continuing operations – Investors Real Estate Trust – basic and diluted	\$ (0.23)	\$ 0.01
Earnings (loss) per common share from discontinued operations – Investors Real Estate Trust – basic and diluted	0.03	—
NET (LOSS) INCOME PER COMMON SHARE – BASIC & DILUTED	\$ (0.20)	\$ 0.01
DIVIDENDS PER COMMON SHARE	\$ 0.13	\$ 0.13

See accompanying Notes to Condensed Consolidated Financial Statements.



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## INVESTORS REAL ESTATE TRUST AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF EQUITY (unaudited)

for the three months ended July 31, 2016 and 2015

	(in thousands)						
	NUMBER OF PREFERRED SHARES	PREFERRED SHARES	NUMBER OF COMMON SHARES	COMMON SHARES	ACCUMULATED DISTRIBUTIONS IN EXCESS OF NET INCOME	NONREDEEMABLE NONCONTROLLING INTERESTS	CUMULATIVE TOTALING EQUITY
Balance							
April 30, 2015	5,750	\$ 138,674	124,455	\$ 951,868	\$ (438,432)	\$ 88,844	\$ 740,954
Net income attributable to Investors Real Estate Trust and nonredeemable noncontrolling interests					4,540	194	4,734
Distributions – common shares and units					(16,200)	(1,815)	(18,015)
Distributions – Series A preferred shares					(593)		(593)
Distributions – Series B preferred shares					(2,286)		(2,286)
Distribution reinvestment and share purchase plan			766	5,241			5,241
Shares issued and share-based compensation			220	22			22
Redemption of units for common shares			79	576		(576)	—
Other						(170)	(170)
Balance							
July 31, 2015	5,750	\$ 138,674	125,520	\$ 957,707	\$ (452,971)	\$ 86,477	\$ 729,887
Balance							
April 30, 2016	5,750	\$ 138,674	121,091	\$ 922,084	\$ (442,000) (21,643)	\$ 99,504 (18,897)	\$ 718,262 (40,540)

Net income attributable to Investors Real Estate Trust and nonredeemable noncontrolling interests								
Distributions – common shares and units					(15,742)	(2,117)		(17,859)
Distributions – Series A preferred shares					(593)			(593)
Distributions – Series B preferred shares					(2,286)			(2,286)
Shares issued and share-based compensation	437		614					614
Contributions from nonredeemable noncontrolling interests – consolidated real estate entities						572		572
Distributions to nonredeemable noncontrolling interests – consolidated real estate entities						(126)		(126)
Other						(24)		(24)
Balance July 31, 2016	5,750	\$ 138,674	121,528	\$ 922,698	\$ (482,264)	\$ 78,912		\$ 658,020

See accompanying Notes to Condensed Consolidated Financial Statements.

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## INVESTORS REAL ESTATE TRUST AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

for the three months ended July 31, 2016 and 2015

	(in thousands)	
	Three Months Ended	
	July 31,	2015
	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net (loss) income	\$ (40,594)	\$ 4,727
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization	14,627	13,713
Depreciation and amortization from discontinued operations	40	4,996
(Gain) loss on sale of real estate, land, other investments and discontinued operations	(8,958)	175
Share-based compensation expense	262	66
Impairment of real estate investments	54,153	1,725
Bad debt expense	263	(97)
Changes in other assets and liabilities:		
Receivable arising from straight-lining of rents	(736)	269
Accounts receivable	(1,503)	313
Prepaid and other assets	694	1,215
Tax, insurance and other escrow	256	41
Deferred charges and leasing costs	(303)	(1,436)
Accounts payable, accrued expenses and other liabilities	(2,446)	(925)
Net cash provided by operating activities	15,755	24,782
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from real estate deposits	—	5
Payments for real estate deposits	—	(4,131)
Decrease in other investments	50	—
Decrease in lender holdbacks for improvements	735	1,354
Increase in lender holdbacks for improvements	(346)	(292)
Proceeds from sale of real estate and other investments	13,874	6,783
Insurance proceeds received	30	20
Payments for development and re-development of real estate assets	(5,458)	(40,678)
Payments for improvements of real estate assets	(11,292)	(7,043)
Payments for improvements of real estate assets from discontinued operations	—	(1,470)
Net cash used by investing activities	(2,407)	(45,452)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from mortgages payable	905	23,123
Principal payments on mortgages payable	(13,127)	(35,594)
Proceeds from revolving lines of credit	—	23,000
Proceeds from construction debt	6,906	21,763
Proceeds from sale of common shares under distribution reinvestment and share purchase program	—	1,115
Proceeds from noncontrolling partner – consolidated real estate entities	572	—
Distributions paid to common shareholders	(15,742)	(12,203)

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Distributions paid to preferred shareholders	(2,879)	(2,879)
Distributions paid to noncontrolling interests – Unitholders of the Operating Partnership	(2,117)	(1,685)
Distributions paid to noncontrolling interests – consolidated real estate entities	(126)	(170)
Net cash (used) provided by financing activities	(25,608)	16,470
NET DECREASE IN CASH AND CASH EQUIVALENTS	(12,260)	(4,200)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	66,698	48,970
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 54,438	\$ 44,770

See accompanying Notes to Condensed Consolidated Financial Statements.

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INVESTORS REAL ESTATE TRUST AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited, continued)

for the three months ended July 31, 2016 and 2015

	(in thousands)	
	Three Months Ended	
	July 31,	
	2016	2015
<b>SUPPLEMENTARY SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES</b>		
Distribution reinvestment plan – shares issued	\$ —	\$ 3,997
Operating partnership distribution reinvestment plan – shares issued	—	130
Operating partnership units converted to shares	—	576
Increase to accounts payable included within real estate investments	3,768	6,880
Construction debt reclassified to mortgages payable	10,549	—
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Cash paid for interest, net of amounts capitalized of \$153 and \$2,310, respectively	\$ 10,195	\$ 9,268

See accompanying Notes to Condensed Consolidated Financial Statements.

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INVESTORS REAL ESTATE TRUST AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

for the three months ended July 31, 2016 and 2015

NOTE 1 • ORGANIZATION

Investors Real Estate Trust (“IRET”, “we” or “us”) is a self-advised real estate investment trust engaged in acquiring, owning and leasing real estate. We have elected to be taxed as a Real Estate Investment Trust (“REIT”) under Sections 856-860 of the Internal Revenue Code of 1986, as amended. As a REIT, we are subject to a number of organizational and operational requirements, including a requirement to distribute 90% of ordinary taxable income to shareholders, and, generally, are not subject to federal income tax on net income, except for taxes on undistributed REIT taxable income and taxes on the income generated by our taxable REIT subsidiary (“TRS”). Our TRS is subject to corporate federal and state income tax on its taxable income at regular statutory rates. We have considered estimated future taxable income and have determined that there were no material income tax provisions or material net deferred income tax items for our TRS for the three months ended July 31, 2016 and 2015. Our properties are located mainly in the states of North Dakota and Minnesota, but also in the states of Idaho, Iowa, Kansas, Montana, Nebraska, South Dakota, Wisconsin and Wyoming. As of July 31, 2016, we held for investment 100 multifamily properties with 13,012 apartment units and 2.8 million net rentable square feet in 31 healthcare and 16 other properties. We held for sale 1 multifamily property, 35 healthcare properties and 2 parcels of land as of July 31, 2016. 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.

All references to IRET, we or us refer to Investors Real Estate Trust and its consolidated subsidiaries.

NOTE 2 • BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

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.

Our interest in the Operating Partnership was 88.2% of the limited partnership units of the Operating Partnership (“Units”) as of July 31, 2016 and 88.1% as of April 30, 2016. Under the terms of the Operating Partnership’s Agreement of Limited Partnership, limited partners have the right to require the Operating Partnership to redeem their Units for cash any time following the first anniversary of the date they acquired such Units (“Exchange Right”). When a limited partner exercises the Exchange Right, we have the right, in our sole discretion, to acquire such Units by either making a cash payment or exchanging the Units for our common shares of beneficial interest (“Common Shares”), on a one-for-one basis. The Exchange Right is subject to certain conditions and limitations, including the limited partner may not exercise the Exchange Right more than two times during a calendar year and the limited partner may not exercise for less than 1,000 Units, or, if such limited partner holds less than 1,000 Units, for less than all of the Units held by such limited partner. The Operating Partnership and some limited partners have contractually agreed to a holding period of greater than one year, a greater number of redemptions during a calendar year or other limitations to their Exchange Right.

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.

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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, 2016, as filed with the SEC on June 29, 2016.

RECENT ACCOUNTING PRONOUNCEMENTS

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, Revenue from Contracts with Customers. The standard will eliminate the transaction- and industry-specific revenue recognition guidance under current accounting principles generally accepted in the United States of America ("U.S. GAAP") and replace it with a principle based approach for determining revenue recognition. ASU 2014-09 does not apply to lease contracts accounted for under ASC 840, Leases. The ASU is effective for fiscal years beginning after December 15, 2017. We do not expect adoption of this update to have a material impact on our operating results or financial position.

In February 2015, the FASB issued ASU 2015-02, Amendments to the Consolidation Analysis. ASU 2015-02 affects reporting entities that are required to evaluate whether they should consolidate certain legal entities. Specifically, the amendments: (i) modify the evaluation of whether limited partnerships and similar legal entities are variable interest entities or voting interest entities, (ii) eliminate the presumption that a general partner should consolidate a limited partnership, (iii) affect the consolidated analysis of reporting entities that are involved with variable interest entities, and (iv) provide a scope exception for certain entities. The ASU is effective for fiscal years beginning after December 15, 2015. We adopted the guidance in ASU 2015-02 as of May 1, 2016, as more fully described in the Variable Interest Entity section below.

In April 2015, the FASB issued ASU 2015-03, Simplifying the Presentation of Debt Issuance Costs. ASU 2015-03 requires that debt issuance costs be presented in the balance sheet as a direct deduction from the carrying amount of the debt liability to which they relate, consistent with debt discounts, as opposed to being presented as assets. The ASU is effective for fiscal years beginning after December 15, 2015. We adopted the guidance in ASU 2015-03 as of May 1, 2016. We have retrospectively applied the guidance to debt issuance costs for all prior periods, which resulted in the reclassification of \$4.5 million from deferred charges and leasing costs to mortgages payable on our Condensed Consolidated Balance Sheets at July 31, 2016.

In April 2015, the FASB issued ASU 2015-05, Customer's Accounting for Fees Paid in a Cloud Computing Arrangement. Under ASU 2015-05, if a cloud computing arrangement includes a software license, then the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. The ASU is effective for fiscal years beginning after December 15, 2015. Our adoption of the guidance in ASU 2015-05 did not have a material impact on our operating results or financial position.



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In January 2016, the FASB issued ASU 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities. ASU 2016-01 amends certain aspects of recognition, measurement, presentation and disclosure of financial instruments, including the requirement to measure certain equity investments at fair value with changes in fair value recognized in net income. The ASU is effective for interim and annual reporting periods in fiscal years beginning after December 15, 2017. We do not expect adoption of this update to have a material impact on our operating results or financial position.

In February 2016, the FASB issued ASU 2016-02, Leases. ASU 2016-02 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. The ASU is effective for interim and annual reporting periods in fiscal years beginning after December 15, 2018. We are currently evaluating the impact the new standard may have on our consolidated financial statements.

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In March 2016, the FASB issued ASU 2016-09, Improvements to Employee Share-Based Payment Accounting. ASU 2016-09 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. The ASU is effective for interim and annual reporting periods in fiscal years beginning after December 15, 2016. We are currently evaluating the impact the new standard may have on our consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, Classification of Certain Cash Receipts and Cash Payments. ASU 2016-15 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. The ASU is effective for interim and annual reporting periods in fiscal years beginning after December 15, 2017. We are currently evaluating the impact the new standard may have on our consolidated financial statements.

## 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 three months ended July 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, North Dakota, due to deterioration of this energy-impacted market, which resulted in poor leasing activity and declining rental rates during the three months ended July 31, 2016, which should generally be a strong leasing period. 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 we have an approximately 70%, 60% and 70% interest, respectively, but which are consolidated in our financial statements. We expect to discuss rebalancing the mortgage loans with the lenders for two of these properties during the second quarter of fiscal year 2017.

During the three months ended July 31, 2015, we incurred a loss of approximately \$1.7 million due to impairment of one office property and one parcel of land. We recognized impairment of approximately \$440,000 on an office property in Eden Prairie, Minnesota, which was written-down to estimated fair value during the first quarter of fiscal year 2016 based on receipt of a market offer to purchase and our intent to dispose of the property. We recognized impairment of \$1.3 million on a parcel of land in Grand Chute, Wisconsin based on its sale listing price and our intent to dispose of the property. The impairment loss of the Eden Prairie, Minnesota property for the first quarter of fiscal year 2016 is reported in discontinued operations. See Note 7 for additional information.

## HELD FOR SALE

We classify properties as held for sale when they meet the U.S. GAAP criteria, which include: (a) management commits to and initiates a plan to sell the asset (disposal group), (b) the sale is probable and expected to be completed within one year under terms that are usual and customary for sales of such assets (disposal groups), and (c) actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn. Real estate held for sale is stated at the lower of its carrying amount or estimated fair value less disposal costs. Depreciation is not recorded on assets classified as held for sale. Liabilities classified as held for sale consist of

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liabilities to be included in the transaction and liabilities directly associated with assets that will be transferred in the transaction. Thirty-five healthcare properties, one multifamily property, and two parcels of land were classified as held for sale at July 31, 2016. Thirty-five healthcare properties, one multifamily property, one industrial property and three parcels of unimproved land were classified as held for sale at April 30, 2016.

**COMPENSATING BALANCES AND OTHER INVESTMENTS; HOLDBACKS**

We maintain compensating balances, not restricted as to withdrawal, with several financial institutions in connection with financing received from those institutions and/or to ensure future credit availability. At July 31, 2016, our compensating balances totaled \$13.1 million and consisted of the following:

Financial Institution	
First International Bank, Watford City, ND	\$ 6,000,000
Associated Bank, Green Bay, WI	3,000,000
The PrivateBank, Minneapolis, MN	2,000,000
Bremer Bank, Saint Paul, MN	1,285,000
Dacotah Bank, Minot, ND	250,000
Peoples State Bank, Velva, ND	225,000
American National Bank, Omaha, NE	200,000
Commerce Bank a Minnesota Banking Corporation	100,000
Total	\$ 13,060,000

We have a number of mortgage loans under which the lender retains a portion of the loan proceeds or requires a deposit for the payment of construction costs or tenant improvements. The decrease of \$735,000 in lender holdbacks for improvements reflected in the Condensed Consolidated Statements of Cash Flows for the three months ended July 31, 2016 is due primarily to the release of loan proceeds to us upon completion of construction and tenant improvement projects, while the increase of approximately \$346,000 represents additional amounts retained by lenders for new projects.

**IDENTIFIED INTANGIBLE ASSETS AND LIABILITIES AND GOODWILL**

Upon acquisition of real estate, we record the intangible assets and liabilities acquired (for example, if the leases in place for the real estate property acquired carry rents above the market rent, the difference is classified as an intangible asset) at their estimated fair value separate and apart from goodwill. We amortize identified intangible assets and liabilities that are determined to have finite lives based on the period over which the assets and liabilities are expected to affect, directly or indirectly, the future cash flows of the real estate property acquired (generally the life of the lease). In the three months ended July 31, 2016 and 2015, respectively, we added no new intangible assets or intangible liabilities. Amortization of intangibles related to above or below-market leases is recorded in real estate rentals in the Condensed Consolidated Statements of Operations. Amortization of other intangibles is recorded in depreciation/amortization related to real estate investments in the Condensed Consolidated Statements of Operations. Intangible assets subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. An impairment loss is recognized if the carrying amount of an intangible asset is not recoverable and its carrying amount exceeds its estimated fair value.

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Our identified intangible assets and intangible liabilities at July 31, 2016 and April 30, 2016 were as follows:

(in  
thousands)