INVESTORS REAL ESTATE TRUST
Form 10-K
June 28, 2018
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended April 30, 2018
or
TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ____________ to ____________
Commission File Number 001-35624
INVESTORS REAL ESTATE TRUST
(Exact name of Registrant as specified in its charter)

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

1400 31st Avenue SW, Suite 60
Post Office Box 1988
Minot, ND 58702-1988
(Address of principal executive offices) (Zip code)
701-837-4738
(Registrant’s telephone number, including area code)
Securities registered pursuant to Section 12(b) of the Act:
Common Shares of Beneficial Interest (no par value) - New York Stock Exchange
6.625% Series C Cumulative Redeemable Preferred Shares of Beneficial Interest (no par value) -
New York Stock Exchange
Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
þ Yes ¨ No
Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act.
¨ Yes þ No
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 such filing requirements for the past 90 days.
þ Yes ¨ No
Indicate by checkmark whether the Registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§229.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files).
þ Yes ¨ No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

¨ Yes þ No

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

þ Large accelerated filer ¨ Accelerated filer ¨ Emerging growth company
¨ Non-accelerated filer ¨ Smaller reporting company

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

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

¨ Yes þ No

The aggregate market value of the Registrant's outstanding common shares of beneficial interest held by non-affiliates of the Registrant as of October 31, 2017 was 695,861,225 based on the last reported sale price on the New York Stock Exchange on October 31, 2017. For purposes of this calculation, the Registrant has assumed that its trustees and executive officers are affiliates.

The number of common shares of beneficial interest outstanding as of June 20, 2018, was 119,406,963.

References in this Annual Report on Form 10-K to the "Company," "IRET," "we," "us," or "our" include consolidated subsidiaries, unless the context indicates otherwise.

Documents Incorporated by Reference: Portions of IRET's definitive Proxy Statement for its 2018 Annual Meeting of Shareholders to be held on September 18, 2018 are incorporated by reference into Part III (Items 10, 11, 12, 13 and 14) hereof.

Table of Contents

INVESTORS REAL ESTATE TRUST
INDEX

Table of Contents

Special Note Regarding Forward-Looking Statements

Certain statements included in this Annual Report on Form 10-K and the documents incorporated into this document by reference are "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended (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 plans and objectives, including our future financial condition, anticipated capital expenditures, anticipated distributions, and 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. Forward-looking statements are typically identified by the use of terms such as "expects," "anticipates," "intends," "plans," "believes," "seeks," "estimates," and variatio those words and similar expressions. These forward-looking statements involve known and unknown risks, uncertainties, and other factors that may cause the actual results, performance, or achievements to be materially different from the results of operations, financial conditions, or plans expressed or implied by the forward-looking statements. Although we believe the expectations reflected in our forward-looking statements are based upon reasonable assumptions, we can give no assurance that our expectations will be achieved. Any statements contained herein that are not statements of historical fact should be deemed forward-looking statements. As a result, reliance should not be placed on these forward-looking statements, as these statements are subject to known and unknown risks, uncertainties, and other factors beyond our control and could differ materially from our actual results and performance.

The following factors, among others, could cause our future results to differ materially from those expressed in the forward-looking statements:

- economic conditions in the markets where we own properties or markets in which we may invest in the future;
- rental conditions in our markets, including occupancy levels and rental rates, our potential inability to renew tenants or obtain new tenants upon expiration of existing leases, changes in tax and housing laws, or other factors;
- adverse changes in real estate markets, including future demand for apartment homes in our significant markets, barriers of entry into new markets, limitations on our ability to increase rental rates, our ability to identify and consummate acquisitions and dispositions on favorable terms, our ability to reinvest sales proceeds successfully, and our ability to accommodate any significant decline in the market value of real estate serving as collateral for our mortgage obligations;
- inability to succeed in any new markets we may enter;
- failure of new acquisitions to achieve anticipated results or be efficiently integrated;
- inability to complete lease-up of our projects on schedule and on budget;
- inability to sell our non-core properties on terms that are acceptable;
- failure to reinvest proceeds from sales of properties into tax-deferred exchanges, which could necessitate special dividend and tax protection payments;
- inability to fund capital expenditures out of cash flow;
- inability to pay, or need to reduce, dividends on our common shares;
- financing risks, including our potential inability to obtain debt or equity financing on favorable terms, or at all;
- level and volatility of interest or capitalization rates or capital market conditions;
- changes in operating costs, including real estate taxes, utilities, and insurance costs;
- the availability and cost of casualty insurance for losses;
- inability to continue to satisfy complex rules in order to maintain our status as a REIT for federal income tax purposes, inability of the Operating Partnership to satisfy the rules to maintain its status as a partnership for federal income tax purposes, and the risk of changes in laws affecting REITs;
- inability to attract and retain qualified personnel;
- cyber liability or potential liability for breaches of our privacy or information security systems;
- inability to comply with environmental laws and regulations; and
- other risks identified in this Report, in other SEC reports, or in other documents that we publicly disseminate.

Readers should carefully review our financial statements and the notes thereto, as well as the section entitled "Risk Factors" in Item 1A of this Annual Report on Form 10-K and the other documents we file from time to time with the Securities and Exchange Commission ("SEC").

In light of these uncertainties, the events anticipated by our forward-looking statements might not occur. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. The foregoing review of factors that could cause our actual results to differ materially from those contemplated in any forward-looking statements included in this Annual Report on Form 10-K should not be construed as exhaustive.

Table of Contents

PART I

Item 1. Business

OVERVIEW

Investors Real Estate Trust ("we," "us," "IRET" or the "Company") is a real estate investment trust ("REIT") organized under the laws of North Dakota, that is focused on the ownership, management, acquisition, development, and redevelopment of apartment communities. Over the past several years, we have extensively repositioned our portfolio from a diversified, multi-segment collection of properties into a single segment focused on apartment communities. During the fiscal year ended April 30, 2018, we substantially completed this transformation by selling 50 commercial and other non-core multifamily properties for an aggregate sales price of $515.1 million. We used a portion of the proceeds from these sales to purchase four apartment communities with 1,355 homes for $373.1 million. Our current focus is on making operational enhancements that will improve our residents' experience, redeveloping some of our existing apartment communities to meet current market demands, and acquiring new apartment communities in the Minneapolis/St. Paul and Denver metropolitan areas.

We focus on investing in markets characterized by stable and growing economic conditions, strong employment, and an attractive quality of life that we believe, in combination, lead to higher demand for our apartment homes and retention of our residents. As of April 30, 2018, we owned interests in 90 multifamily communities, containing 14,176 apartment homes and having a total real estate investment amount, net of accumulated depreciation, of $1.3 billion. Our corporate headquarters is located in Minot, North Dakota. We also have corporate offices in Minneapolis and St. Cloud, Minnesota, and additional property management offices located in the states where we own properties.

STRUCTURE

We were organized under the laws of North Dakota on July 31, 1970, and have operated as a REIT under Sections 856-858 of the Internal Revenue Code since our formation. On February 1, 1997, we were restructured as an Umbrella Partnership Real Estate Investment Trust, or UPREIT, and we conduct our daily business operations primarily through our operating partnership, IRET Properties, a North Dakota Limited Partnership ("IRET Properties" or the "Operating Partnership"). The sole general partner of IRET Properties is IRET, Inc., a North Dakota corporation and our wholly owned subsidiary. All of our assets (except for qualified REIT subsidiaries) and liabilities were contributed to IRET Properties, through IRET, Inc., in exchange for the sole general partnership interest in IRET Properties. IRET Properties holds substantially all of the assets of the Company. IRET Properties conducts the operations of the business and is structured as a partnership with no publicly traded equity. Contributions of properties to the Company can be structured as tax-deferred transactions through the issuance of Operating Partnership limited partnership units ("OP Units"), which is one of the reasons the Company is structured in this manner. As of April 30, 2018, IRET, Inc. owned an 89.4% interest in IRET Properties. The remaining interest in IRET Properties is held by individual limited partners.

BUSINESS STRATEGIES

Our business depends on successful investment in property acquisition and development in key geographic markets as well as effective management of those properties. The following is a discussion of our business strategies with respect to real estate investment and management.

Investment Strategy

Our business objective under our current strategic plan is to increase shareholder value by employing a disciplined investment strategy that includes the following elements:

- Investing in income-producing apartment communities in key geographic markets with populations ranking in the top 25 of metropolitan statistical areas, including expansion in the Minneapolis and Denver markets;
- Selecting markets with favorable market characteristics, including occupancy rates, supply pipeline, rent growth, income growth and employment forecasts;
- Focusing on our Midwest-centered portfolio that seeks to take advantage of our heightened market knowledge and regional experience;
- Building a strong market presence in new markets but limiting over-exposure to any given market; and

- Deemphasizing our exposure to tertiary markets.

Table of Contents

Operations Strategy

We manage our apartment communities by focusing on activities that should capitalize on market rental growth, tenant satisfaction and retention, and long-term asset appreciation. We intend to achieve these goals by utilizing the following strategies:

- Overseeing the quality and financial performance of our multifamily portfolio;
- Focusing on rigorous asset management in order to maximize value from new acquisitions and create value within the existing portfolio;
- Building and maintaining in-house expertise, including acquisitions and dispositions of apartment communities and redevelopment projects for existing apartment communities to improve the financial and physical aspects of these properties;
- Developing and maintaining strong internal systems and reporting mechanisms and using technology to unlock value within our portfolio; and
- Maintaining strong, vibrant apartment communities that maximize resident satisfaction.

We believe that providing quality apartment communities, maximizing rent collections and rates as market conditions allow, maintaining property occupancy at optimal levels, and controlling operating costs will help us maximize our financial results and enhance resident satisfaction.

FINANCING AND DISTRIBUTIONS

To fund our investment and capital activities, we rely on a combination of issuance of senior securities, borrowed funds, and offering securities in exchange for property. We regularly issue dividends to our shareholders. Each of these is described below.

Issuance of Senior Securities

On August 7, 2012, we issued 4,600,000 shares of 7.95% Series B Cumulative Redeemable Preferred Shares of Beneficial Interest (the “Series B preferred shares”), and on October 2, 2017, we issued 4,118,460 shares of 6.625% Series C Cumulative Redeemable Preferred Shares of Beneficial Interest (the "Series C preferred shares"). All of the outstanding Series B preferred shares were redeemed on October 30, 2017. Depending on future interest rates and market conditions, we may issue additional preferred shares or other senior securities which would have dividend and liquidation preference over our common shares.

Bank Financing and Other Debt

As of April 30, 2018, we owned 99 properties, of which 58 properties served as collateral for mortgage loans and 41 properties were unencumbered by mortgages. Of the 58 properties that served as collateral for mortgage loans, the majority of these mortgages payable were non-recourse to us other than for standard carve-out obligations. Our primary unsecured credit facility is a revolving, multi-bank line of credit, with borrowing capacity based on the value of properties contained in the unencumbered asset pool. This credit facility matures on January 31, 2021, with one 12-month option to extend the maturity date at our election. In December 2017, we also entered into a $70.0 million unsecured term loan, which matures on January 31, 2023. In addition, we increased the credit capacity of our revolving line of credit from $250.0 million to $300.0 million, and maintain a $200.0 million accordion option that can be accessed by increasing lending commitments under the current agreement. In addition to this credit capacity, in March 2018, we entered into a $6.0 million operating line of credit, which is designed to enhance treasury management activities and more effectively manage cash balances. As of April 30, 2018, our ratio of total indebtedness to total real estate investments was 41.7%.

Issuance of Securities in Exchange for Property

Our organizational structure allows us to issue shares and limited partnership units (or OP Units) of IRET Properties in exchange for real estate. The OP Units generally are redeemable, at the option of the holder, for cash, or, at our option, common shares on a one-for-one basis. Generally, limited partnership units receive the same per unit cash distributions as the per share dividends paid on common shares

Our Declaration of Trust, as amended (our “Declaration of Trust”), does not contain any restrictions on our ability to offer limited partnership units of IRET Properties in exchange for property. As a result, any decision to do so is vested solely in our Board of Trustees. For the three most recent fiscal years ended April 30, we have issued the following limited partnership units of IRET Properties in exchange for properties:

4

Table of Contents

	(in thousands)		
	2018	2017	2016
Limited partnership units issued	—	—	2,559
Value at issuance, net of issue costs	$ —	$ —	$ 18,226

Acquiring or Repurchasing Shares and Units
It is our intention to invest only in real estate assets. Our Declaration of Trust does not prohibit the acquisition or repurchase of our common or preferred shares or other securities so long as such activity does not prohibit us from operating as a REIT under the Internal Revenue Code.

During fiscal year 2018, our Board of Trustees reauthorized a share repurchase program of up to $50.0 million worth of our common shares, under which we repurchased approximately 1.8 million common shares on the open market at an average price of $5.58 per share during fiscal year 2018. Subsequent to April 30, 2018, we repurchased approximately 118,000 common shares at an average price of $5.18 per share through June 20, 2018.

During fiscal year 2018, we redeemed all of our outstanding Preferred B Shares for an aggregate redemption price of $115.0 million. Such shares were redeemed on October 30, 2017, and were delisted from trading on the NYSE. During fiscal year 2018, we redeemed for cash approximately 1.5 million units held by limited partners at an average price of $5.89 per unit.

Distributions to Shareholders
Distributions to shareholders and holders of limited partnership units. The Internal Revenue Code requires a REIT to distribute 90% of its net taxable income, excluding net capital gains, to its shareholders, and a separate requirement to distribute net capital gains or pay a corporate level tax in lieu thereof. We have distributed, and intend to continue to distribute, enough of our taxable income to satisfy these requirements. Our general practice has been to make cash distributions to our common shareholders and the holders of limited partnership units of approximately 65% to 90% of our funds from operations and to use the remaining funds for capital improvements or the purchase of additional properties. Distributions to our common shareholders and unitholders in fiscal years 2018 and 2017 totaled approximately 104% and 115%, respectively, on a per share and unit basis of our funds from operations.
For additional information on our sources of liquidity and funds from operations, see Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Liquidity and Capital Resources."
Employees

As of April 30, 2018, we had 527 employees, of which 472 were full-time and 55 were part-time.

ENVIRONMENTAL MATTERS
See the discussion under the caption "Risks Related to Real Estate Investments and Our Operations -- The Company's portfolio may have environmental liabilities" in Item 1A, Risk Factors, for information concerning the potential effects of environmental matters on our business, which discussion under "The Company's portfolio may have environmental liabilities" is incorporated by reference into this Item 1.

INSURANCE
We purchase general liability and property insurance coverage for each of our properties. We also purchase limited terrorism, environmental and flood insurance as well as other types of insurance coverage related to a variety of risks and exposures. There are certain types of losses that may not be covered or could exceed coverage limits. Our insurance policies are also subject to deductibles and coverage limits. Although we believe that we have adequate insurance coverage on our properties, we may incur losses, which could be material, due to uninsured risks, deductibles and/or losses in excess of coverage limits, any of which could have a material adverse effect on our business.

5

Table of Contents

COMPETITION

There are numerous housing alternatives that compete with our apartment communities in attracting residents. Our apartment communities compete directly with other apartment communities, condominiums, and single-family homes in the areas in which our properties are located. If the demand for our apartment communities is reduced or competitors develop or acquire competing housing, rental and occupancy rates may decrease, which could have a material adverse effect on our business. Additionally, we compete with other real estate investors, including other REITs, businesses, and other entities to acquire properties. This competition affects our ability to acquire properties we want to add to our portfolio and the price we pay for acquisitions.

Website and Available Information

Our internet address is www.iretapartments.com. We make available, free of charge, through the "SEC filings" tab under the Investors section of our website, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to such reports, and proxy statement for our Annual Meeting of Shareholders, filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after such reports are filed with or furnished to the SEC. We also file press releases, investor presentations, and certain supplemental information on our website. Current copies of our Code of Conduct; Code of Ethics for Senior Financial Officers; and Charters for the Audit, Compensation, Executive and Nominating and Governance Committees of our Board of Trustees are also available on our website under the "Corporate Governance" tab under the Investors section of our website. Copies of these documents are also available free of charge to shareholders upon request addressed to the Secretary at Investors Real Estate Trust, P.O. Box 1988, Minot, North Dakota 58702-1988. Information on our website does not constitute part of this Annual Report on Form 10-K.

Item 1A. Risk Factors

Risks Related to Our Properties and Operations

We face certain risks related to our ownership of apartment communities and operation of our business. Set forth below are the risks that we believe are material to IRET's shareholders and unitholders. You should carefully consider the following risks in evaluating our properties, business, and operations. Our business, financial condition, cash flows, results of operations, value of our real estate assets and/or the value of an investment in our stock or units are subject to various risks and uncertainties, including those set forth below, any of which could cause our actual operating results to vary materially from our recent results or from our anticipated future results.

Our financial performance is subject to risks associated with the real estate industry and ownership of apartment communities. Our financial performance risks include, but are not limited to, the following:

- downturns in national, regional, and local economic conditions (particularly increases in unemployment);
- competition from other apartment communities;
- local real estate market conditions, including an oversupply of apartments or other housing, or a reduction in demand for apartment communities;
- the attractiveness of our apartment communities to tenants as well as tenants' perceptions of the safety, convenience, and attractiveness of our apartment communities and the areas in which they are located;
- changes in interest rates and availability of attractive financing that might make other housing options, like home ownership, more attractive;
- our ability to collect rents from our tenants;
- vacancies, changes in rental rates, and the periodic need to repair, renovate, and redevelop our apartment communities;
- increases in operating costs, including real estate taxes, state and local taxes, insurance expenses, utilities, and security costs, many of which are not reduced significantly when circumstances cause a reduction in revenues from a property;
- our ability to provide adequate maintenance and insurance on our apartment communities; and
- changes in tax laws and other government regulations that could affect the value of REITs generally or our business in particular.

Table of Contents

Our property acquisition activities may not produce the cash flows expected and could subject us to various risks that could adversely affect our operating results. We have acquired and intend to continue to pursue the acquisition of apartment communities, but the success of our acquisition activities is subject to numerous risks, including the following:

- acquisition agreements are subject to customary closing conditions, including completion of due diligence investigations, and we may be unable to complete an acquisition after making a non-refundable deposit and incurring other acquisition-related costs;
- expected occupancy, rental rates, and operating expenses of acquired apartment communities may differ from the actual results, or from those of our existing apartment communities;
- we may be unable to obtain financing for acquisitions on favorable terms, or at all;
- competition for these properties could cause us to pay higher prices for new properties or prevent us from purchasing a desired property at all;
- we may be subject to unknown liabilities from acquired properties, with either no recourse or limited recourse against prior owners or other third parties with respect to these unknown liabilities; and
- we may be unable to quickly and efficiently integrate new acquisitions into our existing operations.

We may be unable to acquire or develop properties and expand our operations into new or existing markets successfully. We intend to explore acquisitions or developments of properties in new and existing geographic markets. Acquiring or developing new properties and expanding into new markets introduces several risks, including but not limited to the following:

- we may not be successful in identifying suitable properties or other assets that meet our acquisition or development criteria or in consummating acquisitions or developments on satisfactory terms, or at all;
- we may be unable to maintain consistent standards, controls, policies, and procedures, or realize the anticipated benefits of the acquisitions within the anticipated timeframe, or at all;
- acquisitions and divestitures could divert our attention from our existing properties and could cause us to lose key employees or be unable to attract highly qualified new employees;
- unfamiliarity with the dynamics and prevailing conditions of any new geographic markets could adversely affect our ability to successfully expand into or operate within those markets or cause us to become more dependent on third parties in new markets due to our inability to directly and efficiently manage and otherwise monitor new properties in new markets;
- we may make assumptions regarding the expected future performance of acquired properties, including expected occupancy, rental rates, and cash flows, that prove to be inaccurate; and
- we may improperly estimate the costs of repositioning or redeveloping an acquired property.

Risks related to properties under development, redevelopment or newly developed properties may adversely affect our financial performance. We may be unable to obtain, or may suffer delays in obtaining, necessary zoning, land-use, building, occupancy, and other required governmental permits and authorizations, which could lead to increased costs or abandonment of projects. We may not be able to obtain financing on favorable terms, or at all, and we may not be able to complete lease-up of a property on schedule. The resulting time required for development, redevelopment, and lease-up means that we may have to wait years for significant cash returns.

Competition may negatively impact our earnings. We compete with many kinds of institutions, including other REITs, private partnerships, individuals, pension funds, and banks in attracting tenants and finding investment opportunities. Many of these institutions are active in the markets in which we invest and have greater financial and other resources than we do. Our apartment communities compete directly with other multifamily apartment communities, single-family homes, condominiums, and other short-term rentals.

Short-term leases could expose us to the effects of declining market rents. Our apartment leases are generally for a term of 18 months or less. Because these leases generally allow residents to leave at the expiration of the lease term without penalty, our rental revenues are impacted by declines in market rents more quickly than if our leases were for longer terms.

Because real estate investments are relatively illiquid, and various factors limit our ability to dispose of assets, we may not be able to sell properties when appropriate. We may have limited ability to change our portfolio of properties quickly in response to our strategic plan and changes in economic or other conditions, and the prohibitions under the federal income tax laws on REITs holding property for sale and related regulations may affect our ability to sell properties. Under certain circumstances, the Code

Table of Contents

imposes penalties on a REIT that sells property held for less than two years and limits the number of properties it can sell in a given year. Our ability to dispose of assets also may be limited by constraints on our ability to use disposition proceeds to make acquisitions on financially attractive terms and the requirement that we take additional impairment charges on certain assets. More specifically, we are required to distribute or pay tax on all capital gains generated from the sale of assets. Some of our properties were acquired using limited partnership units of IRET Properties, our operating partnership, and are subject to certain agreements that restrict our ability to sell these properties in transactions that would create current taxable income to the former owners. As a result, we are motivated to structure the sale of these assets as tax-free exchanges, the requirements of which are technical and may be difficult to achieve.

Our real estate assets may be subject to impairment charges. We periodically evaluate the recoverability of the carrying value of our real estate assets under United States generally accepted accounting principles ("GAAP"). Factors considered in evaluating impairment of our real estate assets held for investment include significant declines in net operating income, recurring net operating losses, and other significant adverse changes in general market conditions that are considered permanent in nature. Generally, a real estate asset held for investment is not considered impaired if the estimated undiscounted future cash flows of the asset over its estimated holding period are in excess of the asset's net book value at the balance sheet date. Assumptions used to estimate annual and residual cash flow and the estimated holding period of these assets require the judgment of management.

Inability to manage growth effectively may adversely affect our operating results. We have experienced significant growth at various times in the past, principally through the acquisition of additional real estate properties. Effective management of rapid growth presents challenges, including:

- the need to expand our management team and staff;
- the need to enhance internal operating systems and controls; and
- the ability to consistently achieve targeted returns on individual properties.

We may not be able to maintain similar rates of growth in the future or manage our growth effectively.

Adverse changes in taxes and other laws may affect our liabilities relating to our properties and operations. Increases in real estate taxes and service and transfer taxes may adversely affect our cash available for distributions and our ability to pay amounts due on our debt. Similarly, changes in laws that increase the potential liability for environmental conditions or that affect development, construction, and safety requirements may result in significant unanticipated costs. Future enactment of rent control or rent stabilization laws or other laws regulating apartment communities may reduce rental revenues or increase operating costs.

We may be unable to retain or attract qualified management. We are dependent upon our senior officers for essentially all aspects of our business operations. Our senior officers have experience in the real estate industry, and the loss of them would likely have a material adverse effect on our operations and could adversely impact our relationships with lenders and industry personnel. We do not have employment contracts with any of our senior officers. As a result, any senior officer may terminate his or her relationship with us at any time, without providing advance notice. If we fail to effectively manage a transition to new personnel, or if we fail to attract and retain qualified and experienced personnel on acceptable terms, it could adversely affect our business.

Risks related to joint ventures may adversely affect our financial performance and results of operations. We have entered into, and may continue in the future to enter into, partnerships or joint ventures with other persons or entities. Joint venture investments involve risks that may not be present with other methods of ownership, including the possibility that:

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