



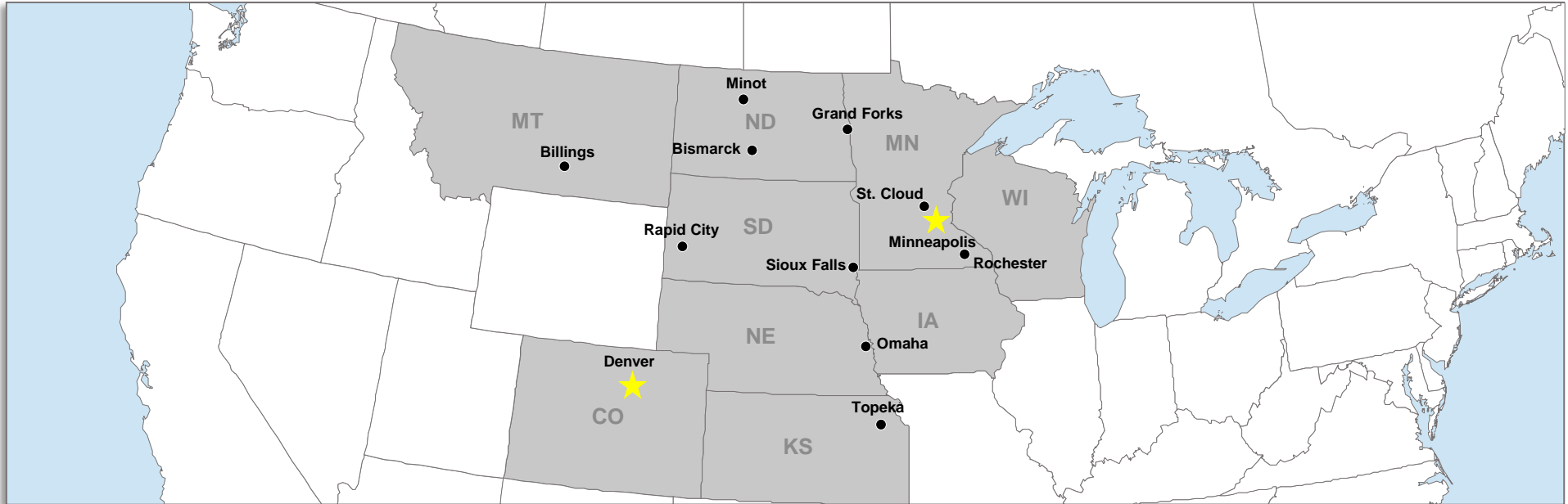
# Rochester Real Estate Summit

Rochester, MN | October 2018

NYSE: IRET



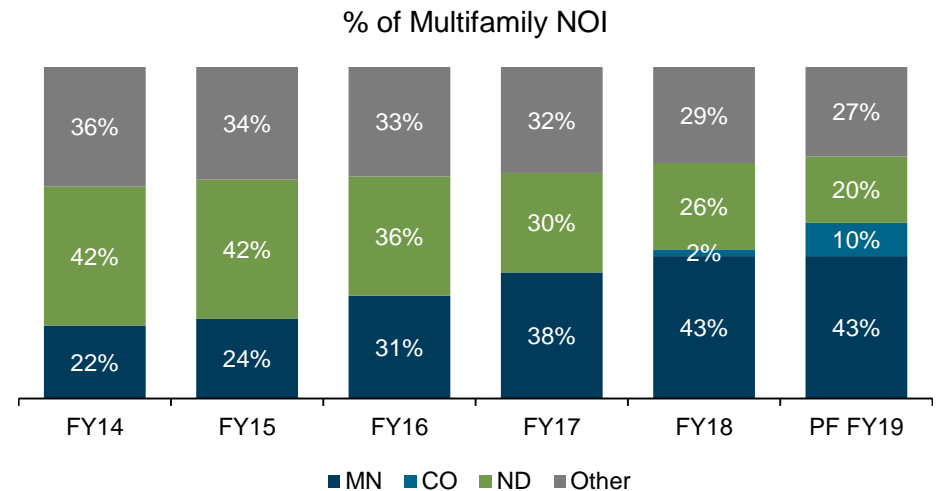
*We are a premier multifamily company delivering exposure to strong Midwest markets*



### Highlights

- 87 communities with 13,703 apartment homes
- Proforma NOI for FY19 estimated to be 30% in Minneapolis and Denver; over 50% in Minnesota and Colorado
- Diversified price points within the portfolio
- Significant opportunity for value add and operational efficiencies
- NYSE listed: IRET

### Portfolio Evolution



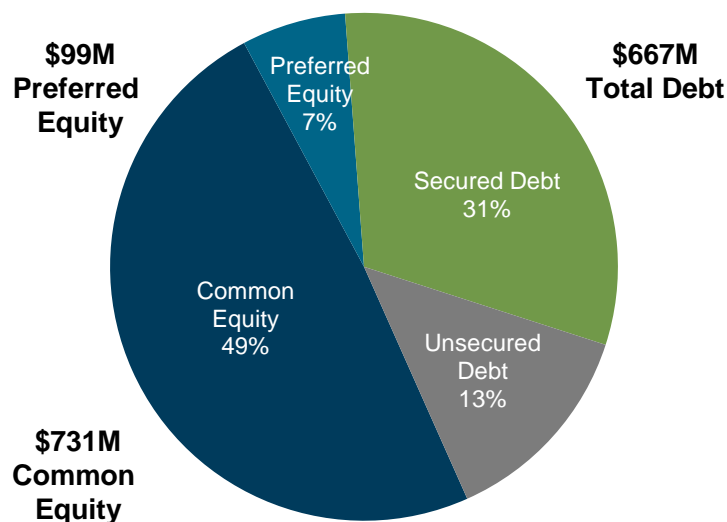


# CAPITAL STRUCTURE OVERVIEW AS OF 7/31/18



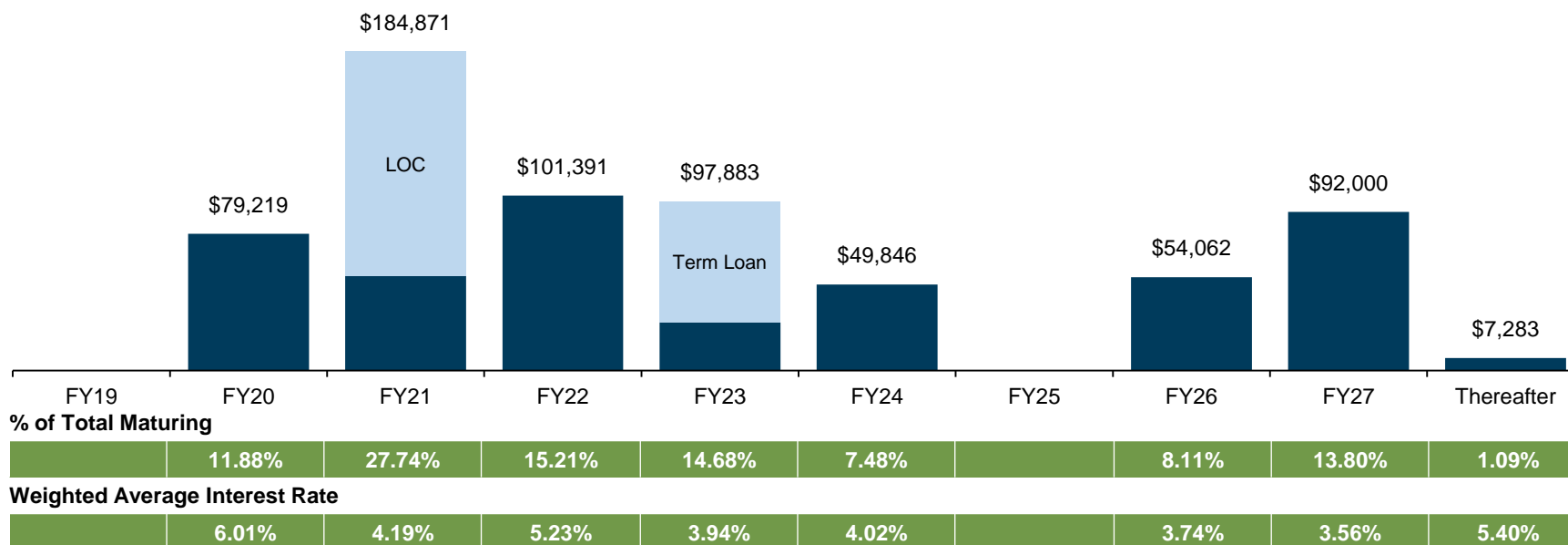
\$ in thousands, except where noted

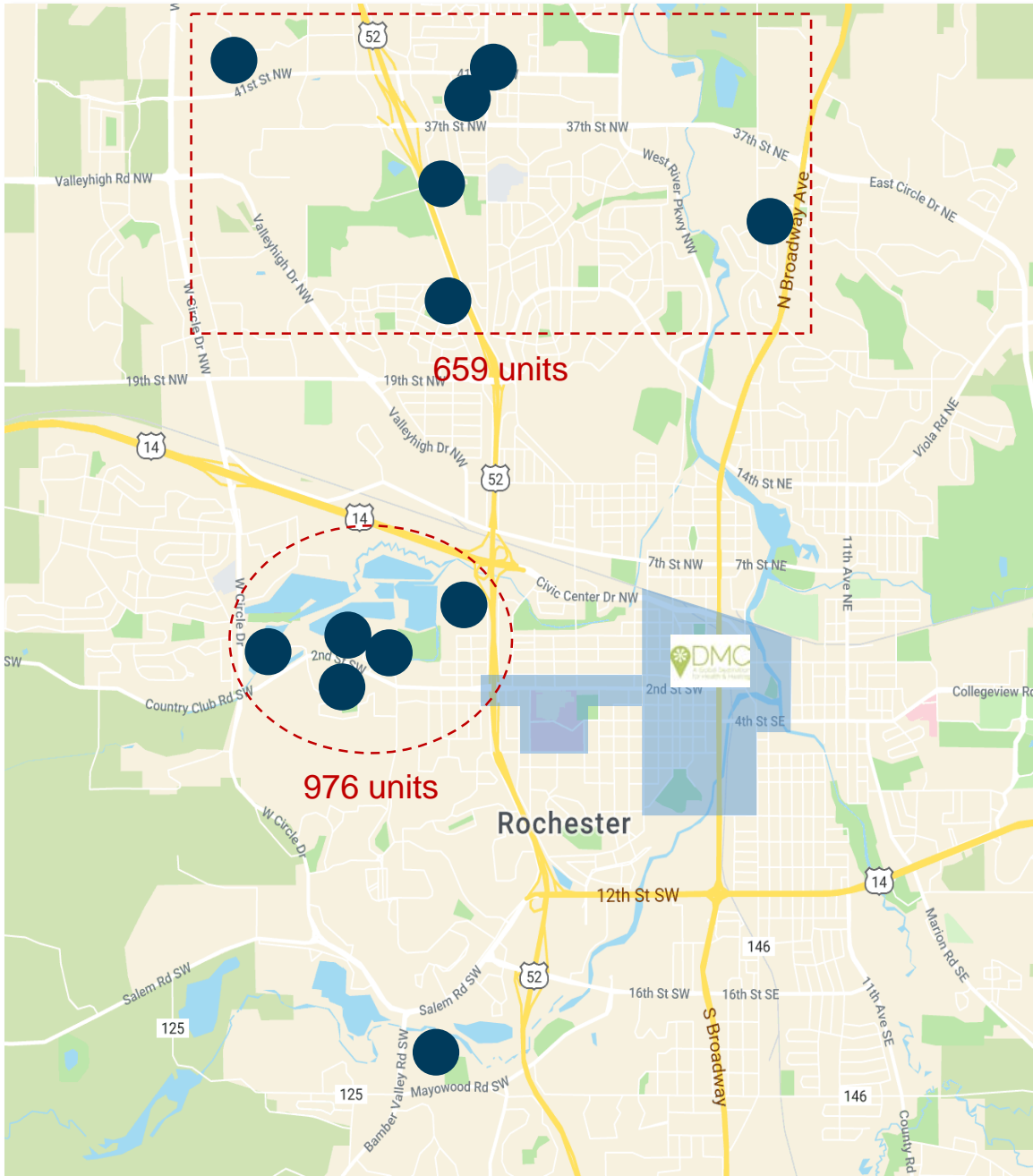
## \$1.5B Total Capitalization



Debt Summary	Amount	% of Total	Weighted Avg. Rate	Weighted Avg. Maturity
<b>Total Secured Debt</b>	<b>\$466,555</b>	<b>70%</b>	<b>4.65%</b>	<b>5.4 Years</b>
Unsecured LOC Balance <sup>(1)</sup>	\$130,000	20%	3.83%	3.0 Years
Unsecured Term Loan	\$70,000	11%	3.86%	5.0 Years
<b>Total Unsecured Debt</b>	<b>\$200,000</b>	<b>30%</b>	<b>3.84%</b>	<b>3.7 Years</b>
<b>Total Debt</b>	<b>\$666,555</b>	<b>100%</b>	<b>4.41%</b>	<b>4.9 Years</b>
Fixed Rate	\$536,555	80%	4.55%	5.4 Years
Variable Rate	\$130,000	20%	3.83%	3.0 Years

(1) LOC commitments total \$300 million





- 1,711 IRET units within Rochester market of ~6,600
- Mix of traditional apartments and townhomes
- 921 IRET units rated 4 stars by CoStar vs Rochester market of ~3,100 units rated 4 or 5 stars
- 613 IRET units rated 3 stars and 177 rated 2 stars
- Average annual same-store revenue growth of 3% since May 2015
- 2<sup>nd</sup> Street Portfolio
  - Primarily built after 2000
  - ~\$1,370 average rents
  - ~\$1.15 PSF
- Others
  - ~\$1,000 average rents
  - ~\$1.04 PSF

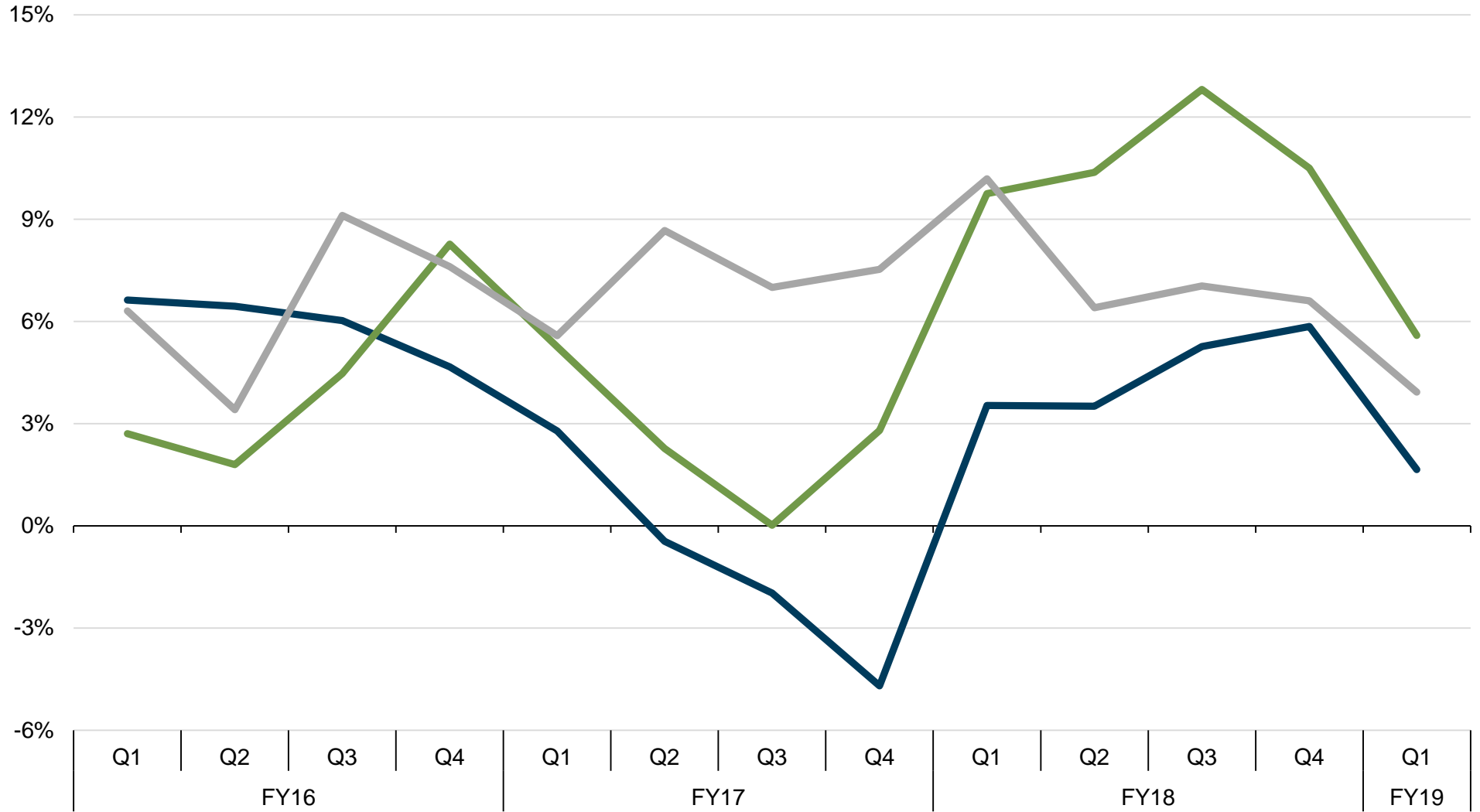


# ROCHESTER VS OTHER MINNESOTA



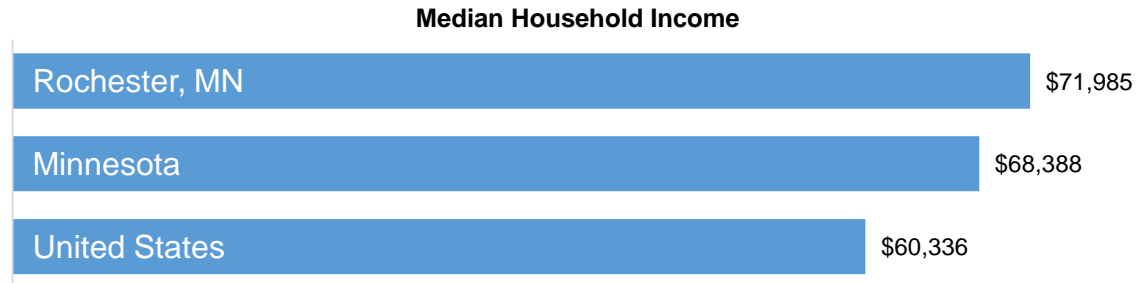
### IRET Same-Store Revenue % Change

— Rochester — St. Cloud — Minneapolis

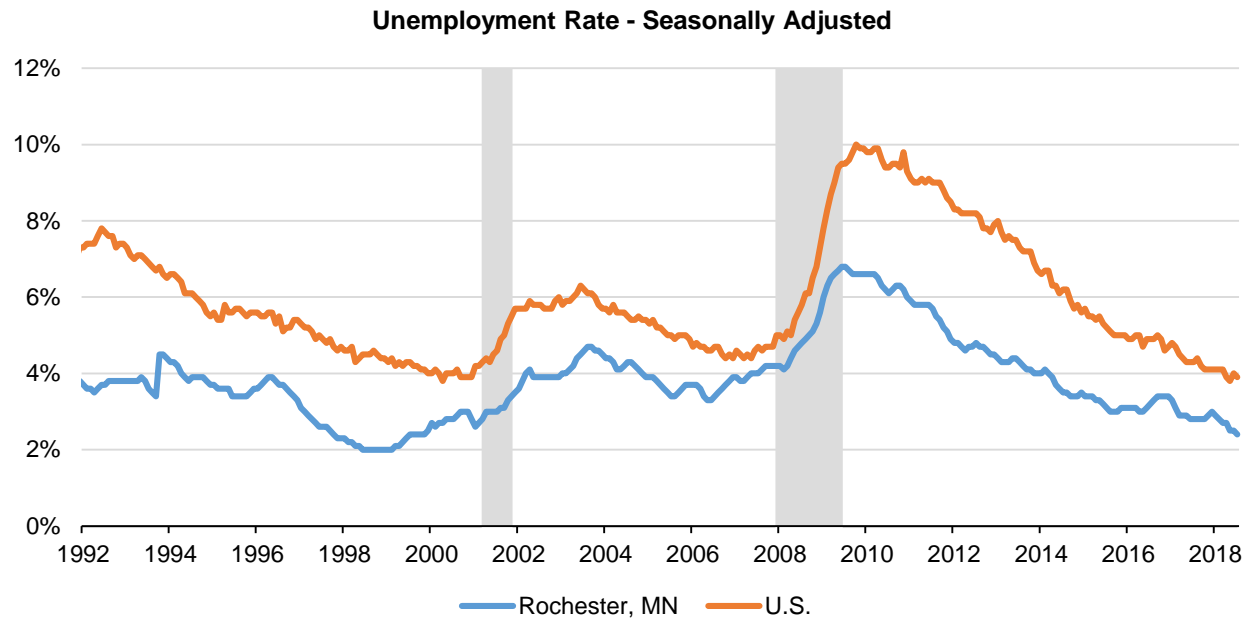




- ▶ ~40% of jobs in Education and Health Services sector
- ▶ Drives high median household income:

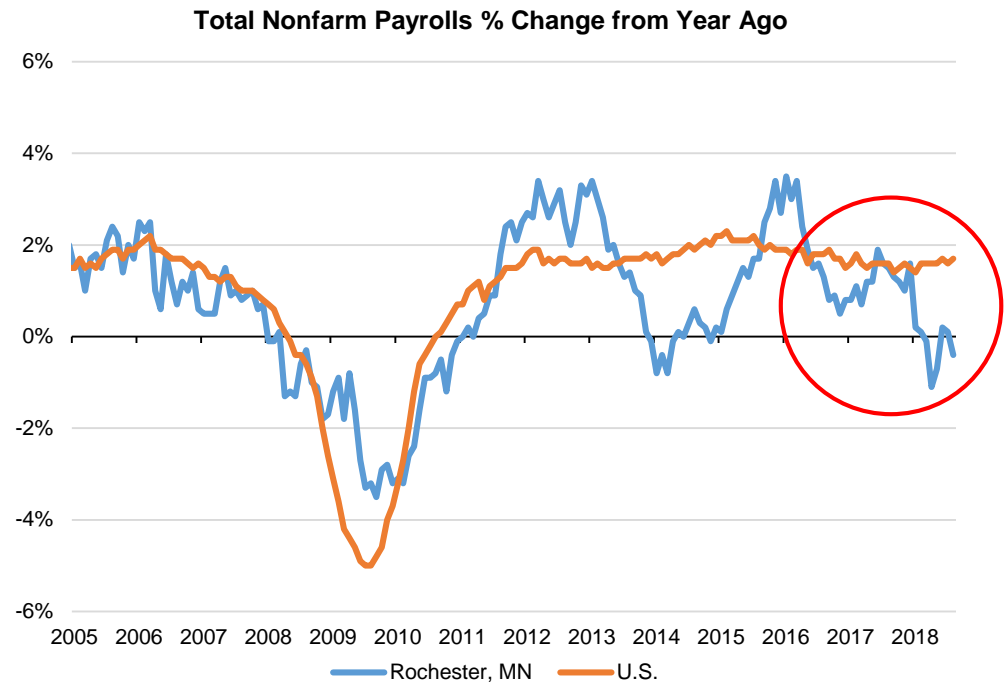
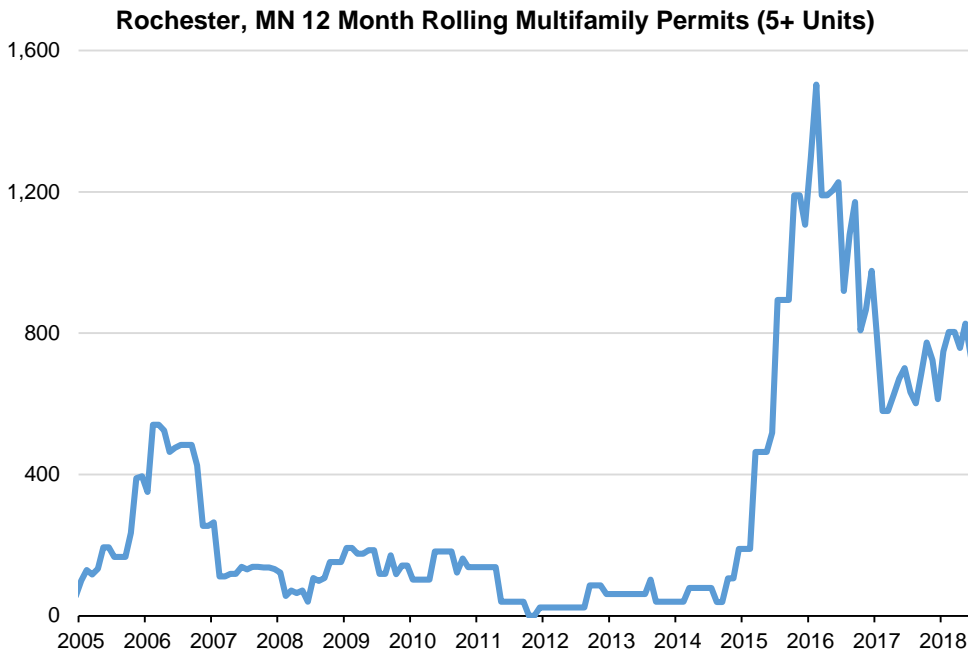


- ▶ Competitive job market characterized by low unemployment and generally less severe effects during recessions:





- ▶ Affordable single family homes – Zillow median home value is \$201,400
- ▶ Combined with high incomes drives more than 75% of the population to own their home; many people who plan to stay will choose to buy
- ▶ New supply will be an issue with 1,500+ units proposed / under construction (900 in DMC) and job growth has been weak recently – will take time to absorb
- ▶ Mayo is great! And that's tough for other businesses trying to hire



*Job growth in Rochester has grown at just 0.7% annually since the beginning of 2013 compared to 1.8% nationally*

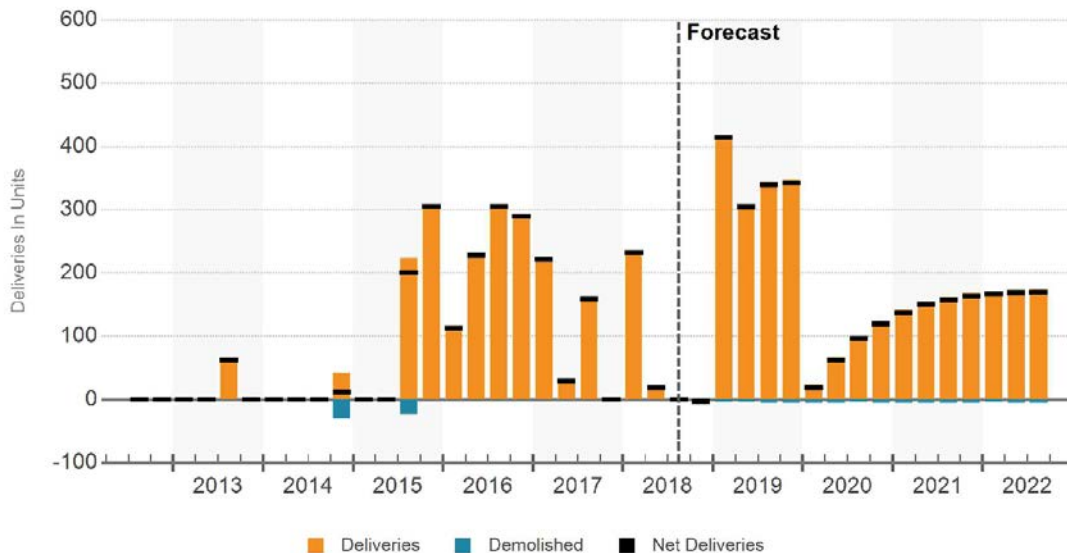


## Key Indicator

Current Quarter	Units	Vacancy Rate	Asking Rent	Effective Rent	Absorption Units	Delivered Units	Under Constr Units
4 & 5 Star	2,926	8.1%	\$1,473	\$1,470	61	0	999
3 Star	2,604	7.4%	\$1,017	\$1,008	6	0	418
1 & 2 Star	1,095	3.9%	\$846	\$844	(1)	0	0
<b>Market</b>	<b>6,625</b>	<b>7.2%</b>	<b>\$1,218</b>	<b>\$1,213</b>	<b>66</b>	<b>0</b>	<b>1,417</b>

Annual Trends	12 Month	Historical Average	Forecast Average	Peak	When	Trough	When
Vacancy Change (YOY)	-3.6%	7.3%	8.0%	15.3%	2017 Q1	4.1%	2014 Q2
Absorption Units	536	170	615	733	2016 Q3	(19)	2015 Q2
Delivered Units	330	190	653	1,043	2017 Q1	0	2014 Q3
Demolished Units	0	3	16	54	2015 Q3	0	2018 Q2
Asking Rent Growth (YOY)	4.2%	0.8%	1.3%	5.5%	2018 Q3	-4.7%	2017 Q3
Effective Rent Growth (YOY)	6.2%	0.7%	1.7%	7.7%	2018 Q3	-5.7%	2017 Q3
Sales Volume	\$10.7 M	\$16.3 M	N/A	\$134.4 M	2016 Q3	\$0	2012 Q3

## Deliveries & Demolitions

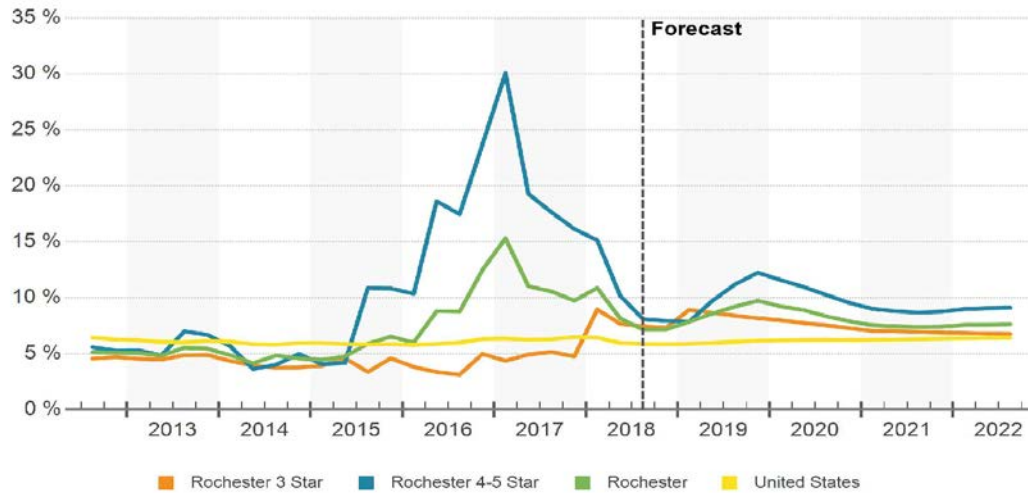


- ▶ Mayo Clinic drives economy with 34,000+ employees and 2 million+ visitors annually
- ▶ DMC expected to make Rochester a global destination for health and wellness with projections for 40,000 new jobs and 100,000 new residents
- ▶ Apartment market balanced from '12 to '14 with vacancy rates generally ranging from 4% to 5%
- ▶ Nearly 2,000 units added since '15 compared to an average of 170 units per year from 2007 to 2014
- ▶ 1,417 units under construction across 9 sites – 4 within walking distance of Mayo Clinic/St. Mary's hospital
- ▶ Record deliveries expected in '19.





## Vacancy Rate



- ▶ Current vacancies elevated at ~7.5% to 8%
- ▶ Class A vacancy rate projected to rise further to ~12% before finding relief near end of '19
- ▶ Class B vacancy rate shouldn't fare as bad given less direct competition
- ▶ Affordable housing continues to be in dire need as evidenced by lower vacancies in the B and C class properties
- ▶ Rents, construction costs, and labor will conspire against affordable housing here as it does nationally
- ▶ Market rent growth projected at 0% to 2% as market absorbs new supply

## Market Rent per Unit & Rent Growth

