

INREIT

— REAL ESTATE INVESTMENT TRUST —



2008 Annual Report



 **BioLife** PLASMA
SERVICES

1800

OPEN

INREIT 2008 Annual Report

Consolidated Financial Data

The following table sets forth summary financial data as of and for each of the years ending December 31, 2004 through 2008. This table illustrates the substantial growth that INREIT

has experienced in the past few years in real estate assets, Funds from Operations, and dividends paid to shareholders.

From operations, and dividends paid to shareholders.					
	2008	2007	2006	2005	2004
Income Statement Data					
Revenues	\$ 27,200,963	\$ 10,825,582	\$ 5,209,370	\$ 4,363,128	\$ 2,583,804
Net Income	\$ 4,042,793	\$ 1,613,116	\$ 565,962	\$ 421,982	\$ 256,957
Funds From Operations	\$ 8,719,531	\$ 3,766,233	\$ 1,548,916	\$ 1,180,710	\$ 636,390
Balance Sheet Data					
Total Real Estate Investments	\$263,452,787	\$141,950,509	\$ 54,339,110	\$ 40,132,532	\$ 27,332,026
Total Assets	\$273,912,838	\$149,389,237	\$ 56,264,603	\$ 40,795,971	\$ 28,023,007
Shareholder Equity	\$121,416,879	\$ 68,288,640	\$ 17,972,873	\$ 11,854,911	\$ 9,883,302
Per Share Data					
Shares Outstanding*	12,179,576	7,072,232	2,271,667	1,333,686	990,176
Net Income	\$ 0.33	\$ 0.23	\$ 0.25	\$ 0.32	\$ 0.26
Funds from Operations (FFO)	\$ 0.72	\$ 0.53	\$ 0.68	\$ 0.89	\$ 0.64
Weighted Shares Outstanding*					
Weighted Shares Outstanding*	9,089,094	4,053,449	1,611,367	1,167,228	719,152
Net Income - Weighted Share	\$ 0.44	\$ 0.40	\$ 0.35	\$ 0.36	\$ 0.36
FFO - Weighted Share	\$ 0.96	\$ 0.93	\$ 0.96	\$ 1.01	\$ 0.88
Dividends Per Share	\$ 0.74	\$ 0.72	\$ 0.69	\$ 0.66	\$ 0.60

*Includes Cash Shares and UPREIT Operator Partnership Units

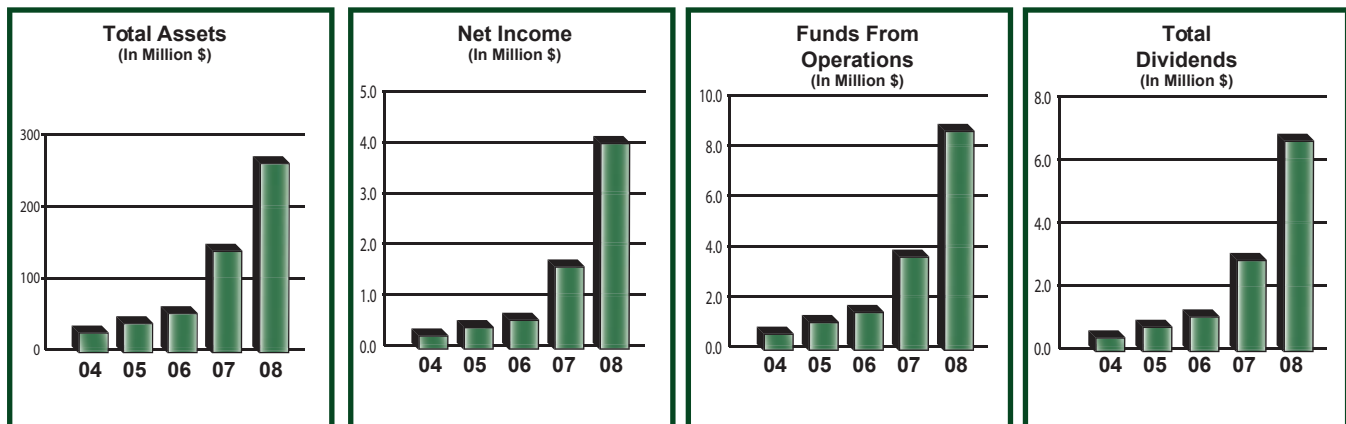






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Left Image:

Inside of Aetna Service Center - Bismarck, ND

Front Cover:

Willow Park - Fargo, ND

Back Cover:

Sunset Ridge - Bismarck, ND

Inside Front Cover:

BioLife Plasma Center - Bismarck, ND

Inside Back Cover:

Edgewood Vista Senior Living Facility - Bismarck, ND

Message to Shareholders

Dear Shareholders:

We want to thank you for your support as we celebrate our significant achievements and milestones for INREIT during 2008 and navigate through 2009. We are very proud of our portfolio accomplishments, including **completing nearly \$120 million in acquisitions that will provide profitable returns going forward.** We should reflect on what we experienced last year and discuss how INREIT is positioned to perform well in the current environment.

It is important to first discuss the very difficult economy and capital markets environment which the entire REIT industry and other companies are experiencing. The instability of the country's financial institutions caused a crisis of consumer confidence, which is critical to the success of every endeavor undertaken. INREIT has taken careful consideration into acquisitions and property management to ensure a balanced portfolio with focus on properties that ensure positive returns. **Through this conservative approach in these difficult times, we are confident INREIT will not only strengthen, but prosper throughout this period.**

Our number one priority is to keep INREIT strong and safe through a difficult time. Capital is a strategic asset in today's world, and every decision we make will focus on

growing this most important resource and thus increasing shareholder value.

Now let us discuss our strong 2008 performance despite the challenging economy in which we operated during 2008:

- 44 investment properties valued at \$111,063,328 were acquired with an additional \$8,624,074 invested in a construction project. These acquisitions were offset by the sale of 4 assisted living facilities for \$4,604,530. Property and Equipment grew by 85% while total assets increased by 83% during 2008. **Total assets as of 12/31/2008 are \$273,912,838.**
- INREIT surpassed \$100 million in equity ending the year at \$121,416,879. Total shares/units increased from 7,072,232 in 2007 to 12,179,576 at year end 2008. This increase represents a 44% increase in total equity from one year ago. **Equity as a percentage of total assets is very strong at 44%.**
- With the majority of 2007 acquisitions occurring in the second half of the year, the full effect of these acquisitions was not reflected until 2008. In 2008, **revenues attained \$27,200,963 or a 151% increase, and net earnings increased by 151% to over 4 million.** Our Funds from Operations (FFO)

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increased from \$3,766,233 to \$8,719,531 or 132%.

- INREIT's per share numbers also improved significantly. **On a per share basis, net income increased from .23¢ to .33¢ or 43% during 2008.** FFO increased from 53¢ to 72¢ or 36%. INREIT's weighted average shares outstanding were 9,089,094 or a 124% increase from 12/31/2007. Net income based on our weighted average increased from 40¢ to 44¢ or a 10% increase, while FFO increased from .93¢ to .96¢.
- In today's environment as we hear of companies cutting dividends, **your Board gives a high priority to assuring your dividend.** In fact, INREIT approved a dividend increase from 18.375¢ to 18.625¢ per share at its January 2009 Quarterly Meeting. In 2008, INREIT reported a dividend coverage ratio of 122% compared to a 114% coverage ratio in 2007.

In this challenging and uncertain financial climate, **INREIT is scrutinizing all costs and taking a conservative approach to balance sheet management.** Having a strong cash position is critical as we

concentrate on retaining tenants, achieving operating efficiencies, and continuing to seize valuable opportunities.

Our strong and secure dividend will continue to provide stability for investors in these turbulent times. ***Our strategy and our portfolio are well positioned to perform in 2009 and beyond.***

Thank you for your continued support and investment in INREIT.

Sincerely,



Earl S. Strinden
Chairman of the Board



Kenneth P. Regan
Chief Executive Officer



Our Mission

The mission of INREIT is to consistently increase the value of our diversified investment portfolio through aggressive research and analysis of potential acquisitions.

INREIT will strive to make sound investment decisions while committing to the pursuit of increasing shareholder value. We will continue to focus on property in the Midwest where we currently hold the majority of our portfolio.

Our continued growth and success will be obtained through the loyal support of our shareholders, directors, and advisors.



Auburn Place - Fargo, ND



Sunwood Estate - Fargo, ND





Echelon Building - Fargo, ND

Our Business

Formed in November 2002 and re-structured on January 1, 2003, **INREIT is an Umbrella Partnership Real Estate Investment Trust (UPREIT) and is the sole general partner of INREIT Properties, LLLP**, a North Dakota limited liability limited partnership, the Operating Partnership (OP). As an UPREIT, all property ownership and business operations are conducted through the Operating Partnership and its subsidiaries.

Currently, the Operating Partnership owns property in five states in the Upper Midwest with the majority of property located in North Dakota. The portfolio mix consists of multi-family, office, retail, senior living and medical buildings, along with raw land.

Individual shareholders or limited partners will benefit from a portfolio of professionally managed and diversified income-producing real estate located in several states.

Owners of investment property are offered the opportunity of becoming limited partners in the Umbrella Partnership by conveying real estate to the partnership in exchange for partnership units.



Pebble Creek - Bismarck, ND

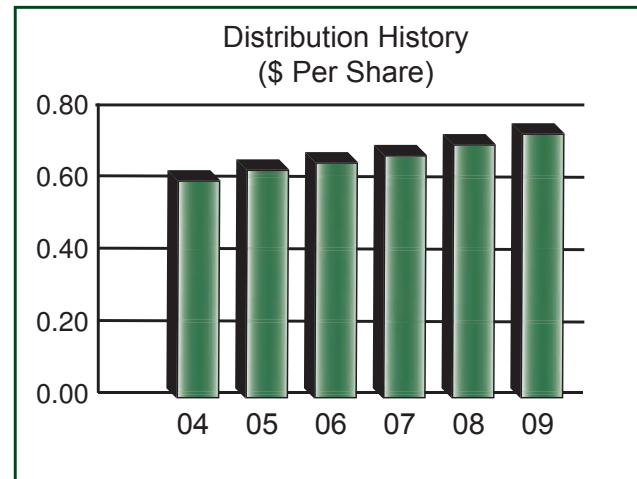
The Trust has qualified as a Real Estate Investment Trust ("REIT") for federal income tax purposes as of this date.

Shareholder's Return

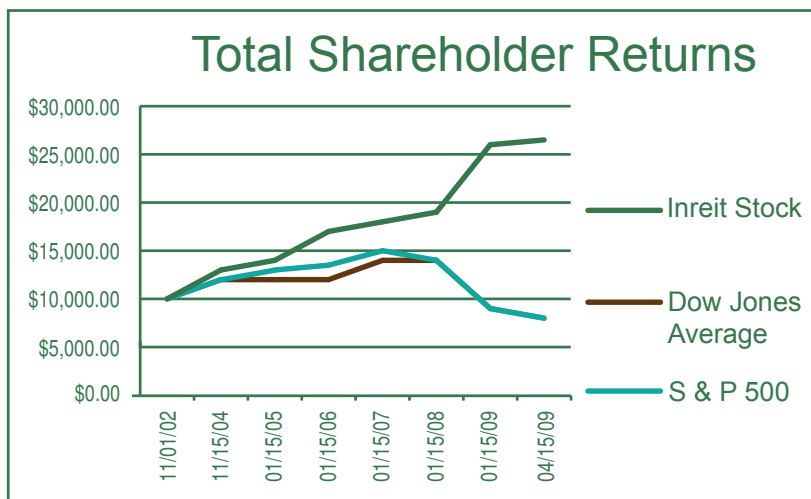
Dividend Distribution

INREIT paid quarterly distributions to shareholders and limited partners during 2008 at a rate of 18.375¢ per quarter, for a total of \$6,714,000 in dividends paid out to its shareholders and limited partners, an increase of \$3,460,000 from 2007.

INREIT increased its annual dividend again in 2009 to 74.5¢ per share, an increase of .01¢ per share from one year ago. Since 2003, INREIT's dividend has increased from 50¢ per share, a 49% increase since inception.



Total Shareholder Returns



For Illustrative purposes:

\$10,000 invested in INREIT stock on November 1, 2002, with dividends reinvested, would be worth \$25,857 as of April 15, 2009. This value excludes the effect of brokerage commissions and income taxes.

Dividend Reinvestment

We offer a dividend reinvestment plan designed to make purchasing stock economical and convenient. The Plan is open to current shareholders and limited partners, as well as new investors.

Through INREIT's Dividend Reinvestment Plan, shareholders have the opportunity to reinvest their cash dividends in additional shares at a 5% discount from the current ask price.

Dividends are paid quarterly in the months of April, July, October and January. The Board of Trustees decides the distribution rate, payable date and record date to determine recipients of that quarter's distribution. Reinvestment of dividends will be made on the payable date.

If participating in the Plan, shareholders will receive quarterly statements indicating the dividend amount paid, number of shares received through reinvestment, and the price per share.

Forms 1099-DIV will be provided to shareholders annually showing reportable income for tax purposes.

There are no broker fees, and INREIT administers the Dividend Reinvestment Plan at no charge to its shareholders.

The initial subscription agreement allows the subscriber to indicate whether they want dividends paid in cash or reinvested in additional INREIT shares. However, a shareholder may opt out of the Plan, or

choose to participate in the Plan at any time. Authorization forms are available from INREIT's corporate office.



Eide Bailly - Fargo, ND



Property Locations



MICHIGAN

Marquette
Medical – 11,737 SF

MINNESOTA

Edina
Office – 102,448 SF *

Duluth
Office – 100,810 SF

Mankato
Medical – 13,181 SF

St. Cloud
Office – 10,810 SF
Retail – 30,200 SF

NEBRASKA

Omaha
Multifamily – 168 units
142 units *

Norfolk
Retail – 45,000 sq. ft

NORTH DAKOTA

Bismarck
Multifamily – 398 units
Office – 75,000 SF
Medical – 11,671 SF

Carrington
Multifamily – 20 units

Fargo
Multifamily – 2065 units
Office – 278,358 SF
Retail – 28,500 SF

Grand Forks
Multifamily – 533 units
Office – 23,117 SF
Medical – 13,181 SF
Retail – 183,000 SF

Minot
Office – 20,000 SF
Assisted Living – 174 units

Williston
Assisted Living – 16 units

WISCONSIN

Eau Claire
Medical – 11,900 SF

Janesville
Medical – 12,225 SF

Onalaska
Medical – 12,180 SF

Oshkosh
Medical – 12,191 SF

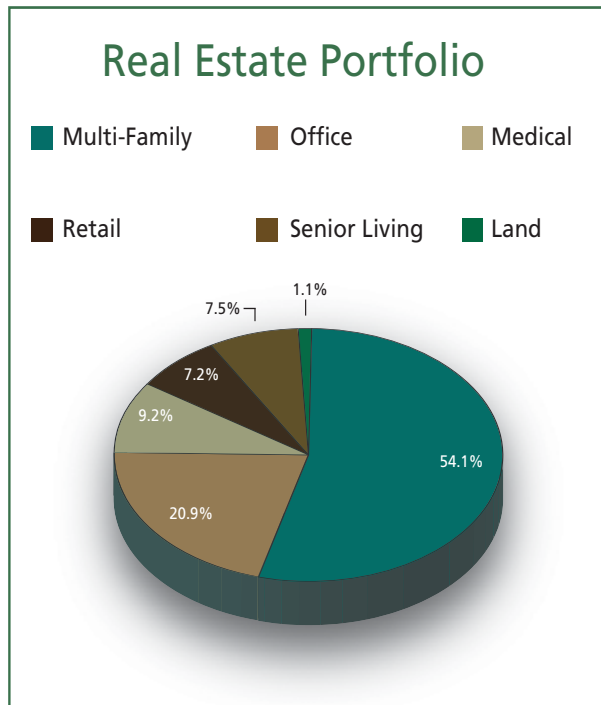
Sheboygan
Medical – 13,230 SF

Stevens Point
Medical - 13,190 SF

**Acquired 1st Quarter 2009*



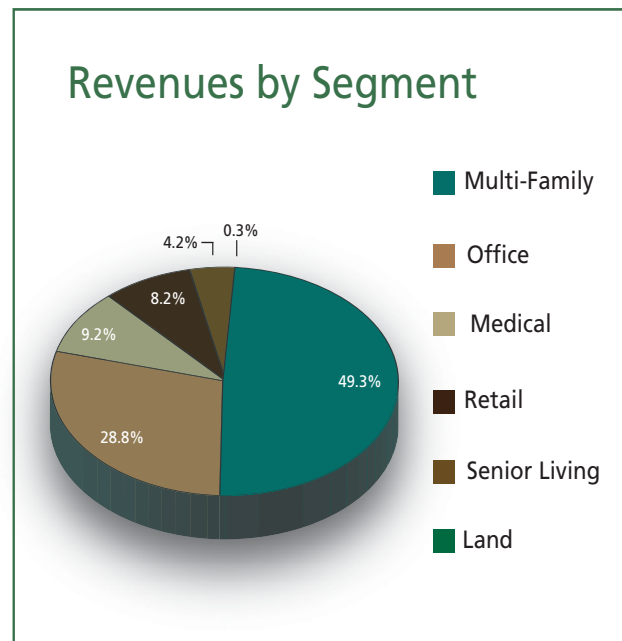
Portfolio Analysis



With the substantial level of acquisitions completed in 2008, the INREIT portfolio mix has changed from one year ago. During 2008, INREIT's multi-family segment increased from 37.9% to 54.1% while our percentage of office property declined from 37.5% to 20.9%, even with INREIT purchasing a pool of 10 medical buildings in 2008.

The diversified portfolio provides a buffer against market and economic fluctuations in a specific property type. INREIT believes the increased percentage of multi-family properties will continue strong in these difficult economic times.

Our revenue breakdown has also changed from one year ago as multi-family revenues now account for almost 50% of INREIT's total revenues. The percentage of multi-family revenue will continue through 2009 as a significant amount of multi-family units were acquired in the latter part of 2008.





Eide Bailly - Fargo, ND

Acquisition Strategy

Portfolio diversification is key to our investment strategy as INREIT seeks to create and maintain an asset base that provides steady growth, while being protected against rising property operating expenses, regional recessions, industry — specific declines, and fluctuations in property values and market rent levels.

Regardless of capital market and economic conditions, we stay focused on improving operating results and portfolio quality, mitigating risks relating to interest rates and the real estate cycle, and applying strategies where our management skills and real estate expertise can add value.

INREIT will acquire carefully underwritten

investment properties to further diversify our portfolio and minimize risk. To accomplish this, the Advisors and Trustees will consider the following:

- Income producing capacity
- Demographic data including vacancy rates, building permits, and unemployment rates
- Property condition, if pre-owned
- Diversity as to size and location of properties
- Availability of discount on the purchase price of an all cash purchase or on an assumption of debt transaction



Somerset Apartments - Fargo, ND

Our goal is to provide shareholders with consistent growth and returns throughout any business cycle.

Liquidity and Capital Resources

INREIT manages our capital structure to reflect a long-term investment approach, generally seeking to **match the cash flow of our assets with a mix of equity and debt**. We expect that our capital structure will allow us to obtain additional capital from diverse sources that include additional equity through stock sales, secured and unsecured debt financing, tax-deferred 1031 exchanges, and possible asset disposition.

Our ability to raise liquidity/cash is dependent upon:

- General economic conditions;
- General market conditions for REITs;
- Operating performance; and
- Price of our stock in relationship to the return to the investors.

The current state of our national economy and the financial industry as a whole impacted cash flow through increased

costs in obtaining financing, in addition to the Commercial Mortgage Back Securities (CMBS) market being non-existent.

Additionally, the cost of capital available to REITs to fund their businesses, including acquisitions and development activities and long-term ownership of property, will likely continue to increase due to the continued uncertainty in the financial markets.

To counter the volatility in the markets, we believe our **balance sheet**

philosophy of conservative debt level and staggered debt maturities will position us to navigate through these difficult times.



Gate City Building - Grand Forks, ND

BED BATH & BEYOND



Construction and Development



Sunset Ridge - Bismarck, ND

INREIT's asset portfolio prospers as evidenced in the November 2008 completion of the Sunset Ridge Apartment complex in Bismarck, ND. The final construction phase produced three 36-plex units which appeal to a variety of tenant needs for multi-family living through their sensible and modern design. The area consists of multifamily and single family dwelling units. Another 72 units are planned in 2009 to further enhance this property's return to investors.

Another keystone development for INREIT is Edgewood Vista Senior Living Center in Bismarck, ND. This facility will provide care in a setting that focuses on high-quality, safe, home-like environment for seniors. Unique enrichment to senior



Edgewood Vista -



INREIT 2008 Annual Report

living is demonstrated in its individualized units, which include Carefree Condos, Assisted Living Apartments, Basic Care units and Memory Care Apartments. Each of these unit types provides homeowners with comfortable family living space.

This complex's remarkable golf course views and amenities cater to a social residential environment. Residents can utilize the café, chapel, library, ice-cream parlor, fitness center and state-of-the-art, 32-seat movie theater.

Increased need for upscale senior living options spurred INREIT to pursue this development project in keeping with its goal of developing property in thriving communities. Edgewood Vista is being built to provide 193 units (94 unit independent living, 84 unit assisted living and 15 bed memory care unit) with a targeted opening date of November 2009.



Bismarck, ND



Edgewood Vista -
Bismarck, ND



Edgewood Vista - Bismarck, ND

2009 and Beyond

Now is a challenging but opportunistic time to be in the investment real estate business. **We believe companies with a clear long-term vision, a strong capital position, astute management, and a keen sense of value will be the survivors in the REIT world going forward.**

Our priorities for 2009 are to:

- Maintain a strong balance sheet
- Maintain liquidity
- Focus on superior management of our existing assets
- Divest non-productive assets (land)

Ensuring adequate liquidity is an absolute necessity in today's environment. INREIT has sufficient capital resources to meet debt maturities through 2010, and fund the completion of Edgewood Vista Senior Housing construction project in process.

The Trustees have directed the Advisor to oversee our existing properties taking special focus to ensure maximum financial performance given the challenging environment. Attention to the few underperforming properties will continue to be a high priority. New development is a low priority. Non-productive assets, primarily raw land, will be sold to invest in income-producing assets.

Capitalization (Cap) rates have increased significantly in the past 18 months. INREIT has the ability to buy commercial real estate with a long-term lease to a credit tenant at an 8% CAP or higher, compared to first quarter 2008 in which these investments demanded a 6% to 6.5% CAP.

Multifamily Assets

During 2008, INREIT acquired several multifamily assets. We believe this larger percentage of multifamily properties was the appropriate move, based upon economic conditions during the second half of 2008 and continuing into 2009. The multifamily segment is expected to be stronger and less volatile than office or retail for the next several years.

Further, as a multifamily owner, we have access to financing from Fannie Mae and Freddie Mac, an advantage over other real estate asset segments that continue to struggle with much tighter credit availability.

New Acquisitions

During the first quarter of 2009, INREIT has acquired over \$22,000,000 of income producing property, with another \$13,000,000 possibly closing by the end of the second quarter. As other investment opportunities arise during 2009, your Board of Trustees, as well as the Advisor, will be disciplined with acquisitions, ensuring we maintain a strong capital and liquidity position along with providing an investment return.

Looking Ahead

We are well positioned to accomplish our mission of building value for our shareholders. Our balance sheet is strong with an equity position in excess of 44%.

We look forward to meeting the current challenges with confidence and to reporting our progress throughout 2009.



Board of Trustees

The Trustees are accountable to the Trust as fiduciaries and must exercise good faith and integrity in handling Trust affairs. The Board has the authority to approve or disapprove all investments recommended to the Trust by the Advisor. The

Trustees will have ultimate control over the management of the Trust and the conduct of Trust affairs; including acquisitions and dispositions of the Trust's assets.



Earl Strinden
Chairman of the Board
Trustee since May 2003



Kenneth P. Regan
Chief Executive Officer
Trustee since July 2007



Peggy Becker
Trustee since January 2003



Lawrence R. (Larry) O'Callaghan
Trustee since January 2003



Dr. Thomas I. Strinden
Trustee since January 2003



Vernon Owan
Trustee since January 2003



Timothy Hunt
Trustee since October 2003



Philip Gisi
Trustee since May 2004



Clifford Fearing
Trustee since March 2005



Rex Carlson
Trustee since July 2005



James Wieland
Trustee since June 2007



Bruce Furness
Trustee since May 2008

Advisors

The advisor of the Trust is INREIT Management, LLC, which has been specifically formed for such a purpose. The Advisor will manage the affairs of the Trust, subject to the review and overall control of

its Board of Trustees, who may remove the advisor without cause. The success of the Trust will depend, to a large extent, on the services and performance of the Advisor.



Kenneth P. Regan



Roger Domres



James Wieland



Dale Lian



James D. Echtenkamp



Brad Williams

Staff



Jacqueline Duke
Vice President



Peter Winger
Chief Financial Officer



Darla Iverson
Shareholder Services



Brent Grosche
Asset Manager



Nicole Madore
Receptionist



Parkwood - Fargo, ND

**CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007**

**INREIT REAL ESTATE INVESTMENT TRUST
AND SUBSIDIARIES**

INREIT REAL ESTATE INVESTMENT TRUST AND SUBSIDIARIES

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
INREIT Real Estate Investment Trust and subsidiaries
Minot, North Dakota

We have audited the accompanying consolidated balance sheets of **INREIT Real Estate Investment Trust and Subsidiaries** as of December 31, 2008 and 2007, and the related consolidated statements of operations, shareholders' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we do not express such an opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of **INREIT Real Estate Investment Trust and Subsidiaries** as of December 31, 2008 and 2007, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Eide Bailly LLP

Fargo, North Dakota
March 6, 2009

PEOPLE. PRINCIPLES. POSSIBILITIES.

www.eidebailly.com

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INREIT REAL ESTATE INVESTMENT TRUST AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
ASSETS		
PROPERTY AND EQUIPMENT, at cost, less accumulated depreciation	\$ 254,577,743	\$ 137,784,439
CASH AND CASH EQUIVALENTS	12,202,562	5,525,922
RESTRICTED DEPOSITS AND FUNDED RESERVES	2,232,238	2,360,102
DUE FROM RELATED PARTY	444,359	684,712
RECEIVABLES	1,310,522	246,148
PREPAID EXPENSES	393,188	114,246
NOTES RECEIVABLE	424,085	-
FINANCING COSTS, less accumulated amortization of \$175,002 in 2008 and \$75,702 in 2007	781,475	661,495
SECURITIES, HELD TO MATURITY	1,267,222	1,785,173
OTHER ASSETS	<u>279,444</u>	<u>227,000</u>
	<u><u>\$ 273,912,838</u></u>	<u><u>\$ 149,389,237</u></u>

See Notes to Consolidated Financial Statements

	<u>2008</u>	<u>2007</u>
LIABILITIES		
MORTGAGE NOTES PAYABLE	\$ 141,531,558	\$ 76,815,184
SPECIAL ASSESSMENTS PAYABLE	1,535,100	849,581
NOTES PAYABLE	-	200,309
DIVIDENDS PAYABLE	2,010,824	1,131,396
DUE TO RELATED PARTY	1,600,906	549,141
TENANT SECURITY DEPOSITS PAYABLE	874,223	333,899
INVESTMENT CERTIFICATES	378,037	230,427
ACCOUNTS PAYABLE - TRADE	41,957	12,406
ACCOUNTS PAYABLE - CONSTRUCTION	1,561,050	-
FAIR VALUE OF INTEREST RATE SWAP	285,850	-
DEFERRED INSURANCE PROCEEDS	291,152	-
ACCRUED EXPENSES	<u>2,385,302</u>	<u>978,254</u>
Total liabilities	152,495,959	81,100,597
MINORITY INTEREST OF UNITHOLDERS IN OPERATING PARTNERSHIP	99,321,947	50,053,278
BENEFICIAL INTEREST	<u>22,094,932</u>	<u>18,235,362</u>
	<u><u>\$ 273,912,838</u></u>	<u><u>\$ 149,389,237</u></u>

INREIT REAL ESTATE INVESTMENT TRUST AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
INCOME		
Income from rental operations	\$ 25,740,651	\$ 10,540,558
Interest income	416,065	163,312
Gain on disposal of property and equipment	344,646	-
Other income	699,601	121,712
	<u>27,200,963</u>	<u>10,825,582</u>
EXPENSES		
Expenses from rental operations		
Interest	7,255,723	3,316,086
Depreciation and amortization	5,021,384	2,153,117
Real estate taxes	3,102,639	780,501
Property management fees	1,879,146	528,160
Utilities	1,895,546	677,157
Repairs and maintenance	2,661,428	995,144
Insurance	368,705	149,020
Salary and wages	34,486	27,272
Food costs for residents	26,156	20,460
Administrative	63,207	54,386
	<u>22,308,420</u>	<u>8,701,303</u>
Administration of REIT		
Administrative expenses	57,192	31,946
Advisory fees	610,686	395,345
Director fees	37,650	19,000
Rent	1,800	19,719
Legal and accounting	142,422	45,153
	<u>849,750</u>	<u>511,163</u>
Total expenses	<u>23,158,170</u>	<u>9,212,466</u>
NET INCOME BEFORE MINORITY INTEREST	4,042,793	1,613,116
MINORITY INTEREST	<u>2,991,080</u>	<u>912,217</u>
NET INCOME	<u>\$ 1,051,713</u>	<u>\$ 700,899</u>

INREIT REAL ESTATE INVESTMENT TRUST AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2008 AND 2007

	Common Shares	Common Shares Amount	Accumulated Earnings (Deficit)	Accumulated Comprehensive Loss	Total
BALANCE, DECEMBER 31, 2006	989,251	\$ 9,832,250	\$ (2,074,274)	\$ -	\$ 7,757,976
Issuance of common shares	1,077,594	11,854,801			11,854,801
Repurchase of shares	(68,248)	(699,299)			(699,299)
Dividends			(1,101,052)		(1,101,052)
Dividends declared			(383,761)		(383,761)
Dividends reinvested	90,520	808,084			808,084
UPREIT units converted to REIT common shares	57,799	577,830			577,830
Syndication costs			(1,280,116)		(1,280,116)
Net income			700,899		700,899
BALANCE, DECEMBER 31, 2007	2,146,916	22,373,666	(4,138,304)	-	18,235,362
Issuance of common shares	315,799	4,163,459			4,163,459
Repurchase of shares	(80,969)	(1,002,228)			(1,002,228)
Dividends			(1,278,596)		(1,278,596)
Dividends declared			(462,593)		(462,593)
Dividends reinvested	87,787	1,183,543			1,183,543
UPREIT units converted to REIT common shares	47,978	580,499			580,499
Syndication costs			(301,865)		(301,865)
Decrease in fair value of interest rate swap				(74,362)	(74,362)
Net income			1,051,713		1,051,713
BALANCE, DECEMBER 31, 2008	<u>2,517,511</u>	<u>\$27,298,939</u>	<u>\$ (5,129,645)</u>	<u>\$ (74,362)</u>	<u>\$ 22,094,932</u>

INREIT REAL ESTATE INVESTMENT TRUST AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
OPERATING ACTIVITIES		
Net income	\$ 1,051,713	\$ 700,899
Adjustments to reconcile net income to net cash from operating activities		
Gain on sale of property and equipment	(344,646)	-
Depreciation	4,918,909	2,101,797
Amortization	102,475	51,320
Minority interest	2,991,080	912,217
Effects on operating cash flows due to changes in		
Tenant security deposits	(851,490)	(605)
Due from management company	240,353	(549,817)
Receivables	(1,064,374)	(246,148)
Prepaid expenses	(278,941)	(81,723)
Other assets	(52,444)	(128,667)
Tenant security deposits payable	540,324	252,814
Accounts payable	29,551	(199,456)
Accrued expenses	1,407,048	270,784
NET CASH FROM OPERATING ACTIVITIES	<u>8,689,558</u>	<u>3,083,415</u>
INVESTING ACTIVITIES		
Purchase of property and equipment	(27,601,867)	(7,188,850)
Cash received during purchase of property	3,615,812	2,225,563
Proceeds from sale of property and equipment	4,604,530	-
Real estate tax and insurance escrows	1,095,149	(1,492,708)
Purchase of securities	(400,000)	(2,203,366)
Notes receivable issued	(430,028)	-
Notes receivable payments received	5,943	-
Proceeds from sale of securities	912,528	435,000
Deferred insurance proceeds	291,152	-
Net deposits to replacement reserve	(115,795)	(264,842)
NET CASH USED FOR INVESTING ACTIVITIES	<u>(18,022,576)</u>	<u>(8,489,203)</u>
FINANCING ACTIVITIES		
Payments for financing costs	(222,455)	(502,237)
Proceeds from investment certificates issued	190,798	69,338
Payments on investment certificates	(43,188)	(208,364)
Principal payments on special assessments payable	(177,826)	(96,451)
Proceeds from issuance of mortgage notes payable	22,568,698	10,628,444
Principal payments on mortgage notes payable	(2,482,731)	(3,463,054)
Net change in notes payable	(200,309)	(2,954,221)
Due to related party	1,051,765	549,141
Proceeds from issuance of shares	4,163,459	11,854,801
Repurchase of shares	(1,002,228)	(699,299)
Distributions paid to shareholders	(478,814)	(292,968)
Distributions paid to minority partners	(4,171,835)	(1,346,818)
Payment of syndication costs	(3,185,676)	(3,453,819)
NET CASH FLOWS FROM FINANCING ACTIVITIES	<u>16,009,658</u>	<u>10,084,493</u>

(continued on next page)

CONSOLIDATED STATEMENTS OF CASH FLOWS – page 2

	2008	2007
NET CHANGE IN CASH AND CASH EQUIVALENTS	6,676,640	4,678,705
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	5,525,922	847,217
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 12,202,562	\$ 5,525,922
SCHEDULE OF CASH FLOW INFORMATION		
Cash paid during the year for interest, net of capitalized interest of \$2,662 and \$70,315 in 2008 and 2007	\$ 6,980,373	\$ 3,192,566
SUPPLEMENTARY SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Distributions reinvested	\$ 1,183,543	\$ 808,084
Distributions declared and not paid	\$ 462,593	\$ 383,761
UPREIT distributions declared and not paid	\$ 1,548,231	\$ 747,635
UPREIT units converted to REIT common shares	\$ 580,499	\$ 577,830
Acquisition of assets in exchange for the issuance of minority interest shares in UPREIT	\$ 54,925,817	\$ 43,772,150
Acquisition of assets through assumption of debt and property purchased with financing	\$ 44,630,407	\$ 36,296,754
Acquisition of assets included in payables	\$ 1,561,050	\$ -
Increase in land improvements due to increase in special assessments payable	\$ 863,345	\$ 531,742
Unrealized loss on interest rate swap	\$ 285,850	\$ -

INREIT REAL ESTATE INVESTMENT TRUST AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007

NOTE 1 - ORGANIZATION

The INREIT Real Estate Investment Trust ("INREIT") is a registered, but unincorporated business trust organized in North Dakota in November 2002. INREIT has elected to be taxed as a Real Estate Investment Trust ("REIT") under Sections 856-860 of the Internal Revenue Code, which requires that 75 percent of the assets of a REIT must consist of real estate assets and that 75 percent of its gross income must be derived from real estate. The net income of the REIT is allocated in accordance with the stock ownership in the same fashion as a regular corporation.

INREIT previously established an operating partnership (INREIT Properties, LLLP) and transferred all of its assets and liabilities to the operating partnership in exchange for general partnership units. The general partner has management responsibility for all activities of the operating partnership. As of December 31, 2008 and 2007, INREIT had an ownership percentage of approximately 21 and 30 percent, respectively. INREIT Properties, LLLP is the 100% owner of Grand Forks Inreit, LLC, Minot Vista Properties, LLC, Autumn Ridge Inreit, LLC, Bismarck Interstate INREIT, LLC, 32nd Avenue Inreit, LLC, INREIT BL Mankato, LLC, INREIT BL Janesville, LLC, INREIT BL Eau Claire, LLC, INREIT BL Stevens Point, LLC, INREIT BL Sheboygan, LLC, INREIT BL Oshkosh, LLC, INREIT BL Onalaska, LLC, INREIT BL Grand Forks, LLC, INREIT BL Marquette, LLC, and INREIT BL Bismarck, LLC, and a 50% owner of Marketplace Investors, LLC.

NOTE 2 - PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of INREIT; INREIT Properties, LLLP; Grand Forks Inreit, LLC; Minot Vista Properties, LLC; Autumn Ridge Inreit, LLC; Bismarck Interstate INREIT, LLC; 32nd Avenue Inreit, LLC; INREIT BL Mankato, LLC; INREIT BL Janesville, LLC; INREIT BL Eau Claire, LLC; INREIT BL Stevens Point, LLC; INREIT BL Sheboygan, LLC; INREIT BL Oshkosh, LLC; INREIT BL Onalaska, LLC; INREIT BL Grand Forks, LLC; INREIT BL Marquette, LLC; INREIT BL Bismarck, LLC; and Marketplace Investors, LLC. All significant intercompany transactions and balances have been eliminated in consolidation.

Principal Business Activity

INREIT has a general partner interest in INREIT Properties, LLLP, which owns and operates the following property:

Residential Property

- 2,089 units in Fargo, North Dakota.
- 509 units in Grand Forks, North Dakota.
- 297 units in Bismarck, North Dakota.
- 20 units in Carrington, North Dakota.
- 168 units in Omaha, Nebraska.
- 16 unit assisted living facility in Williston, North Dakota

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Commercial Property

- 31,000 square foot office building in Fargo, North Dakota.
- 20,000 square foot office building in Minot, North Dakota.
- 45,000 square foot retail complex in Norfolk, Nebraska.
- 15,000 square foot office and retail complex in Fargo, North Dakota.
- 29,000 square foot office and retail complex in Fargo, North Dakota.
- 30,200 square foot retail facility in Waite Park, Minnesota.
- 17,000 square foot office building in Fargo, North Dakota.
- 128,385 square foot office complex in Fargo, North Dakota.
- 10,810 square foot office building in St. Cloud, Minnesota.
- 100,810 square foot office building in Duluth, MN.
- 11,973 square foot office building in Fargo, North Dakota.
- 21,492 square foot office building and 1,625 square foot storage area in Grand Forks, North Dakota.

INREIT Properties, LLLP is the 100% owner of Grand Forks Inreit, LLC, which owns a 1/3 interest as a tenant in common of Grand Forks Marketplace Retail Center. INREIT Properties, LLLP is also the 50% owner of Marketplace Investors, LLC, which owns a 1/3 interest as a tenant in common of Grand Forks Marketplace Retail Center. Grand Forks Marketplace Retail Center has approximately 183,000 square feet of commercial space in Grand Forks, North Dakota.

INREIT Properties, LLLP owns a 1/3 interest as a tenant in common of a 136 unit apartment complex located in Bismarck, North Dakota.

INREIT Properties, LLLP owns a 2/3 interest as a tenant in common of a commercial building with approximately 75,000 square feet of rental space in Fargo, North Dakota.

INREIT Properties, LLLP is the owner of Minot Vista Properties, LLC, which owns and leases property a 174 unit assisted living facility in Minot, North Dakota.

INREIT Properties, LLLP is the owner of Bismarck Interstate INREIT, LLC, which owns and leases two commercial buildings with approximately 75,000 square feet of rental space in Bismarck, North Dakota.

INREIT Properties, LLLP is the owner of INREIT BL Mankato, LLC, INREIT BL Janesville, LLC, INREIT BL Eau Claire, LLC, INREIT BL Stevens Point, LLC, INREIT BL Sheboygan, LLC, INREIT BL Oshkosh, LLC, INREIT BL Onalaska, LLC, INREIT BL Grand Forks, LLC, INREIT BL Marquette, LLC, and INREIT BL Bismarck, LLC, which own a total of ten separate commercial properties totaling 124,686 square feet. These properties are located in Mankato, Minnesota; Janesville, Wisconsin; Eau Claire, Wisconsin; Stevens Point, Wisconsin; Sheboygan, Wisconsin; Oshkosh, Wisconsin; Onalaska, Wisconsin; Grand Forks, North Dakota; Marquette, Michigan; and Bismarck, North Dakota.

Concentration of Credit Risk

INREIT's cash balances are maintained in various bank deposit accounts. The bank deposit accounts may exceed federally insured limits at various times throughout the year.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Use of Estimates

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

Property and Equipment

Property and equipment is stated at cost. All costs associated with the development and construction of real estate investments, including acquisition fees and interest, are capitalized as a cost of the property. Expenditures for renewals and improvements that significantly add to the productive capacity or extend the useful life of an asset are capitalized. Expenditures for routine maintenance and repairs, which do not add to the value or extend useful lives, are charged to expense as incurred.

Depreciation is provided for over the estimated useful lives of the individual assets using the straight-line method over the following estimated useful lives:

Buildings and improvements	40 years
Furniture and fixtures	9 years

Depreciation expense for the year ended December 31, 2008 and 2007, totaled \$4,918,909 and \$2,101,797, respectively.

Annually, INREIT evaluates its real estate investments for significant changes in the operations to assess whether any impairment indications are present, including recurring operating losses and significant adverse changes in legal factors or business climate that affect the recovery of the recorded value. If any real estate investment is considered impaired, a loss is provided to reduce the carrying value of the property to its estimated fair value.

Cash and Cash Equivalents

Highly liquid investments with a maturity of three months or less when purchased are classified as cash equivalents.

Receivables

Receivables consist primarily of amounts due for rent and real estate taxes. The receivables are non-interest bearing. The carrying amount of receivables is reduced by an amount that reflects management's best estimates of the amounts that will not be collected. As of December 31, 2008 and 2007, management considered all receivables collectible.

Securities

INREIT's securities are all classified and accounted for as held to maturity. Securities classified as held to maturity are those securities that INREIT has the ability and intent to hold to maturity. Securities held to maturity are recorded at amortized cost.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Purchase premiums and discounts are recognized in interest income using the effective interest method over the terms of the securities. Declines in the fair value of securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers the length of time and the extent to which the fair value has been less than cost, the financial condition and near-term prospects of the issuer, and the intent and ability of the Bank to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Minority Interest

Interests in the operating partnership held by limited partners are represented by operating partnership units. The operating partnerships' income is allocated to holders of units based upon the ratio of their holdings to the total units outstanding during the period. Capital contributions, distributions, syndication costs, and profits and losses are allocated to minority interests in accordance with the terms of the operating partnership agreement.

Syndication Costs

Syndication costs consist of costs paid to attorneys, accountants, and selling agents, related to the raising of capital. Included in syndication costs are acquisition fees and commissions. These fees are paid based on management's discretion. Syndication costs are recorded as a reduction to equity and minority interest.

Federal Income Taxes

INREIT has elected to be taxed as a real estate investment trust ("REIT") under the Internal Revenue. A REIT calculates taxable income similar to other domestic corporations, with the major difference being that a REIT is entitled to a deduction for dividends paid. A REIT is generally required to distribute each year at least 90 percent of its taxable income. If it chooses to retain the remaining 10 percent of taxable income, it may do so, but it will be subject to a corporate tax on such income. REIT shareholders are taxed on REIT distributions of ordinary income in the same manner as they are taxed on other corporate distributions.

INREIT intends to continue to qualify as a real estate investment trust as defined by the Internal Revenue Code and, as such, will not be taxed on the portion of the income that is distributed to the shareholders. In addition, INREIT intends to distribute all of its taxable income, therefore, no provision or liability for income taxes have been recorded in the financial statements.

INREIT Properties, LLLP is organized as a limited partnership. Income or loss is allocated to the partners in accordance with the provisions of the Internal Revenue Code 701(b) and 704(c). UPREIT status allows non-recognition of gain by an owner of appreciated real estate if that owner contributes the real estate to a partnership in exchange for partnership interest. The conversion of partnership interest to shares of beneficial interest in the REIT will be a taxable event to the limited partner.

Recent Accounting Pronouncements

In July 2006, Financial Interpretation No. 48, Accounting for Uncertainty in Income Taxes, (FIN No. 48) was issued. Subsequent to its original issuance, the effective date of its implementation for nonpublic enterprises has been deferred, and is currently deferred for nonpublic entities until years beginning after December 15, 2008. INREIT has elected to defer implementation of FIN No. 48, as allowable.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

INREIT undergoes an annual analysis of its various tax positions, assessing the likelihood of those positions being upheld upon examination with relevant tax authorities, as defined by FIN No. 48.

In September 2006, the Financial Accounting Standards Board (“FASB”) issued statement of Financial Accounting Standards (“SFAS”) No. 157, *Fair Value Measurements*, (“SFAS 157”), which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. Effective January 1, 2008, INREIT adopted SFAS 157.

In February 2007, the Financial Accounting Standards Board (“FASB”) issued statement of Financial Accounting Standards (“SFAS”) No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*, (“SFAS 159”), permits entities to irrevocably elect fair value on a contract-by-contract basis as the initial and subsequent measurement attribute for many financial assets and liabilities and certain other items including property and casualty insurance contracts. Effective January 1, 2008, INREIT adopted SFAS 159.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB 51* (“SFAS 160”). SFAS 160 changes the accounting and reporting for minority interests. Minority interests will be re-characterized as noncontrolling interests and will be reported as a component of equity separate from the parent’s equity, and purchases or sales of equity interests that do not result in a change in control will be accounted for as equity transactions. In addition, net income attributable to the noncontrolling interest will be included in consolidated net income on the face of the income statement and upon a loss of control, the interest sold, as well as any interest retained, will be recorded at fair value with any gain or loss recognized in earnings. Early adoption is not permitted.

Revenue Recognition

Housing units are rented under short-term lease agreements. Commercial space is rented under long-term lease agreements.

INREIT derives over 95% of its revenues from tenant rents and other tenant-related activities. Tenant rents include base rents, expense reimbursements (such as common area maintenance, real estate taxes and utilities), and straight-line rents. INREIT records base rents on a straight-line basis, which means that the monthly base rent income according to the terms of INREIT’s leases with its tenants is adjusted so that an average monthly rent is recorded for each tenant over the term of its lease. The straight-line rent adjustment increased revenue by \$489,060 in 2008. The straight-line receivable balance included in receivables on the consolidated balance sheet as of December 31, 2008 was \$489,060. INREIT receives payments for these reimbursements from substantially all its multi-tenant commercial tenants throughout the year based on estimates. Differences between estimated recoveries and the final billed amounts, which are immaterial, are recognized in the subsequent year.

Advertising and Marketing

Costs incurred for advertising and marketing are expensed as incurred. Advertising and marketing expense for the years ended December 31, 2008 and 2007 was \$17,333 and \$12,840, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3 - PROPERTY AND EQUIPMENT

Property and equipment as of December 31, 2008 is as follows:

	<u>Residential</u>	<u>Commercial</u>	<u>Total</u>
Land and land improvements	\$ 17,167,546	\$ 13,513,499	\$ 30,681,045
Building and improvements	130,267,183	84,141,257	214,408,440
Furniture and fixtures	8,249,731	1,466,420	9,716,151
Construction in progress (Note 15)	8,647,151	-	8,647,151
	<u>164,331,611</u>	<u>99,121,176</u>	<u>263,452,787</u>
Less accumulated depreciation	<u>(5,094,088)</u>	<u>(3,780,956)</u>	<u>(8,875,044)</u>
	<u>\$ 159,237,523</u>	<u>\$ 95,340,220</u>	<u>\$ 254,577,743</u>

Property and equipment as of December 31, 2007 is as follows:

	<u>Residential</u>	<u>Commercial</u>	<u>Total</u>
Land and land improvements	\$ 7,119,309	\$ 9,722,612	\$ 16,841,921
Building and improvements	59,401,426	61,425,485	120,826,911
Furniture and fixtures	2,816,407	1,465,270	4,281,677
	<u>69,337,142</u>	<u>72,613,367</u>	<u>141,950,509</u>
Less accumulated depreciation	<u>(2,049,697)</u>	<u>(2,116,373)</u>	<u>(4,166,070)</u>
	<u>\$ 67,287,445</u>	<u>\$ 70,496,994</u>	<u>\$ 137,784,439</u>

Interest of \$2,662 and \$70,315 has been capitalized to property and equipment for the years ended December 31, 2008 and 2007, respectively.

NOTE 4 - RESTRICTED DEPOSITS AND FUNDED RESERVES

	<u>2008</u>	<u>2007</u>
Tenant security deposits	\$ 875,351	\$ 23,861
Real estate tax and insurance escrows	877,630	1,972,779
Replacement reserves	<u>479,257</u>	<u>363,462</u>
	<u>\$ 2,232,238</u>	<u>\$ 2,360,102</u>

Tenant Security Deposits

Pursuant to management policy, INREIT has set aside funds to repay tenant security deposits upon tenant move-out.

Real Estate Tax and Insurance Escrows

Pursuant to the terms of certain mortgages and management policy, INREIT established and maintains real estate tax escrows and insurance escrows to pay real estate taxes and insurance. INREIT is to contribute to the account monthly an amount equal to 1/12 of the estimated real estate taxes and insurance premiums.

(continued on next page)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Replacement Reserves

Pursuant to the terms of certain mortgages and management policy, INREIT established and maintains several replacement reserve accounts. INREIT makes monthly deposits into the replacement reserve accounts to be used for repairs and replacements on the property. Certain replacement reserve accounts require authorization from the mortgage company for withdrawals.

NOTE 5 - SECURITIES

Debt securities have been classified in the balance sheet according to management's intent. The amortized cost and fair value of securities are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities held to maturity:				
December 31, 2008				
U.S. Government and federal agency	\$ 866,352	\$ -	\$ -	\$ 866,352
Fixed income	400,870	-	-	400,870
	<u>\$ 1,267,222</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,267,222</u>
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities held to maturity:				
December 31, 2007				
U.S. Government and federal agency	\$ 1,310,173	\$ -	\$ -	\$ 1,310,173
State and municipal bonds	475,000	-	-	475,000
	<u>\$ 1,785,173</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,785,173</u>

The scheduled maturities of the above securities as of December 31, 2008 were as follows:

	Amortized Cost	Fair Value
Due within one year	<u>\$ 1,267,222</u>	<u>\$ 1,267,222</u>

Proceeds from the sales of securities during the years ended December 31, 2008 and 2007 were approximately \$913,000 and \$435,000, respectively, resulting in no gross realized or unrealized gains or losses.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6 - MORTGAGE NOTES PAYABLE

Mortgage notes payable consist of:

	<u>2008</u>	<u>2007</u>
5.26% mortgage note payable, due in monthly installments of \$25,522, including interest until July 2013, secured by a mortgage on property, security agreement, and an assignment of rents (Note 17)	\$ 6,364,141	\$ 6,479,821
6.55% mortgage note payable, due in monthly installments of \$3,869, including interest until February 2014, secured by a mortgage on property and equipment	327,383	351,068
8.3% mortgage note payable, due in monthly installments of \$19,058, unpaid principal and interest due November 2010, secured by a mortgage on property and equipment	2,338,995	2,368,933
7.15% mortgage note payable, due in monthly installments of \$5,439, including interest, unpaid principal and interest due March 2011, secured by a mortgage on property and a security interest in cash or investment accounts with the lender	752,221	765,350
7.25% mortgage note payable, due in varying monthly installments of approximately \$9,500, including interest, unpaid principal and interest due April 2020, secured by a mortgage on property and a security interest in cash or investment accounts held with the lender (Note 8)	1,216,608	1,239,712
6.35% mortgage note payable, due in monthly installments of \$7,586, including interest, unpaid principal and interest due June 2010, secured by a mortgage on property and a security interest in cash or investment accounts with the lender	958,585	986,734
Variable rate mortgage note payable, interest fixed at 6.25% through June 2010, thereafter adjusted every 5 years, due in monthly installments of \$15,356 until July 2025, secured by a mortgage on property and an assignment of rents	1,903,388	1,966,209
5.74% mortgage note payable, due in monthly installments of \$18,945, including interest, until January 2016, secured by a mortgage on property, security agreement, and an assignment of rents	3,129,016	3,172,377
6.66% mortgage note payable, due in monthly installments of \$41,114, including interest, until December 2021, secured by a mortgage on property	5,812,757	5,908,975

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	2008	2007
5.92% mortgage note payable, due in monthly installments of \$22,291, including interest, until November 2019, secured by a mortgage on property and guaranty of owners (Note 17)	1,219,306	1,235,753
5.46% mortgage note payable, due in monthly installments of \$5,842, including interest, until August 2019, secured by a mortgage on property (Note 17)	983,463	999,386
7% mortgage note payable, due in monthly installments of \$35,628, including interest, until May 2022, secured by a mortgage on property (Note 17)	5,246,425	5,302,433
5.93% mortgage note payable, due in monthly installments of \$45,224, including interest, until August 2017, secured by a mortgage on property and assignment of rents and leases	7,483,000	7,571,627
6.65% mortgage note payable, due in monthly installments of \$9,798, including interest, until May 2014, remainder due at that time, secured by a mortgage on property	1,382,262	1,405,513
5.33% mortgage note payable, due in monthly installments of \$68,688, including interest, until September 2020, secured by a mortgage on property	7,185,975	7,614,735
5.96% mortgage note payable, due in monthly installments of \$20,297, including interest, until July 2020, secured by a mortgage on property, security agreement, and an assignment of rents	3,293,895	3,339,656
6.67% mortgage note payable, due in monthly installments of \$21,872, including interest, until December 2013, secured by a mortgage on property, security agreement, and an assignment of rents	2,894,572	2,961,523
7.18% mortgage note payable, due in monthly installments of \$16,258, including interest, until January 2013, secured by a mortgage on property, security agreement, and an assignment of rents	2,024,107	2,071,995
6.3% mortgage note payable, due in monthly installments of \$4,224, including interest, until October 2017, remainder due at that time, secured by a mortgage on property and business assets	672,672	680,373
6.3% mortgage note payable, due in monthly installments of \$2,032, including interest, until October 2017, remainder due at that time, secured by a mortgage on property and business assets	322,992	327,227

(continued on next page)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	2008	2007
6.1% mortgage note payable, due in monthly installments of \$13,862, including interest, until December 2017, remainder due at that time, secured by a mortgage on property and business assets	2,259,930	2,287,500
6.1% mortgage note payable, due in monthly installments of \$12,680, including interest, until December 2017, remainder due at that time, secured by a mortgage on property and business assets	2,067,280	2,092,500
6.59% mortgage note payable, due in monthly installments of \$2,574, including interest, until December 2012, remainder due at that time, secured by a mortgage on property	959,824	975,000
6.23% mortgage note payable, due in monthly installments of \$13,642, including interest, until January 2013, remainder due at that time, secured by mortgage on property	2,019,744	2,051,500
6.73% mortgage note payable, due in monthly installments of \$17,314, including interest, until December 2013, remainder due at that time, secured by mortgage on property, security agreement, and an assignment of rents	2,280,692	2,333,047
5.03% mortgage note payable, due in monthly installments of \$19,122, including interest, until September 2019, remainder due at that time, secured by mortgage on property, security agreement, and an assignment of rents	3,375,656	3,433,734
6.01% mortgage note payable, due in monthly payments \$8,716, including interest, unpaid principal and interest due January 2010, secured by a mortgage on property and an assignment of leases	5,895,408	6,000,000
7.06% - 7.65% mortgage notes payable, due in various monthly installments of principals and interest, until March 2016, remainder due at that time, secured by mortgage on property and assignment of rents	15,160,882	-
5.72% mortgage note payable, due in monthly installments of \$17,683, including interest, until January 2013, remainder due at that time, secured by mortgage on property, deed to secure debt or deed of trust	2,771,050	-
5.50% mortgage note payable, due in monthly installments of \$3,735, including interest, until June 2013, remainder due at that time, secured by mortgage on property	602,289	-

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	2008	2007
5.98% mortgage note payable, due in monthly installments of \$11,965, including interest, until September 2017, remainder due at that time, secured by mortgage on property, deed to secure debt or deed of trust	1,994,308	-
5.93% mortgage note payable, due in monthly installments of \$15,174, including interest, until September 2017, remainder due at that time, secured by mortgage on property, deed to secure debt or deed of trust	2,542,665	-
6.15% mortgage note payable, due in monthly installments of \$6,862, including interest, until July 2016, remainder due at that time, secured by mortgage on property	1,003,837	-
6.15% mortgage note payable, due in monthly installments of \$35,057, including interest, until June 2015, remainder due at that time, secured by mortgage on property and an assignment of rents	5,670,418	-
6.00% mortgage note payable, due in monthly installments of \$13,084, including interest, until May 2015, remainder due at that time, secured by mortgage on property and an assignment of rents	2,148,182	-
6.83% mortgage note payable, due in monthly installments of \$2,800, including interest, until June 2018, remainder due at that time, secured by mortgage on property and an assignment of rents	404,451	-
6.83% mortgage note payable, due in monthly installments of \$12,500, including interest, until June 2018, remainder due at that time, secured by mortgage on property and an assignment of rents	1,766,918	-
Variable rate mortgage note payable (5.95% at December 31, 2008), adjusted every three years, due in monthly installments of \$7,700, including interest, until April 2018, remainder due at that time, secured by mortgage on property and an assignment of rents	1,183,648	-
6.83% mortgage note payable, due in monthly installments of \$5,100, including interest, until June 2018, remainder due at that time, secured by mortgage on property and an assignment of rents	729,156	-
6.83% mortgage note payable, due in monthly installments of \$2,500, including interest, until June 2018, remainder due at that time, secured by mortgage on property and an assignment of rents	356,689	-

(continued on next page)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	2008	2007
5.6% mortgage note payable, due in monthly installments of \$12,658, including interest, until December 2012, remainder due at that time, secured by mortgage on property and an assignment of rents	2,012,027	-
6.25% mortgage note payable, due in monthly installments of \$25,200, including interest, until August 2015, remainder due at that time, secured by mortgage on property and an assignment of rents	3,771,747	-
5.96% mortgage note payable, due in monthly installments of \$6,727, including interest, until October 2015, remainder due at that time, secured by mortgage on property	1,037,213	-
5.96% mortgage note payable, due in monthly installments of \$11,488, including interest, until October 2015, remainder due at that time, secured by mortgage on property	1,771,240	-
5.96% mortgage note payable, due in monthly installments of \$5,045, including interest, until October 2015, remainder due at that time, secured by mortgage on property	777,910	-
6.96% mortgage note payable, due in monthly installments of \$16,897, including interest, until June 2013, remainder due at that time, secured by mortgage on property, deed to secure debt or deed of trust	2,160,479	-
7.8% mortgage note payable, due in monthly installments of \$12,914, including interest, until September 2014, remainder due at that time, secured by mortgage on property, deed to secure debt or deed of trust	1,590,990	-
Variable rate mortgage note payable (4.0% at December 31, 2008), adjusted every three years, due in monthly installments of \$31,300, including interest, until December 2013, remainder due at that time, secured by mortgage on property and an assignment of rents	5,900,000	-
5.5% mortgage note payable, due in monthly installments of \$16,024, including interest, until December 2013, remainder due at that time, secured by mortgage on property and an assignment of rents	2,590,000	-
5.6% mortgage note payable, due in monthly installments of \$14,905, including interest, until December 2013, remainder due at that time, secured by mortgage on property and an assignment of rents	2,385,000	-
6.96% mortgage note payable, due in monthly installments of \$24,848, including interest, until June 2013, remainder due at that time, secured by mortgage on property and an assignment of rents	3,177,178	-

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	<u>2008</u>	<u>2007</u>
6.96% mortgage note payable, due in monthly installments of \$22,198, including interest, until July 2013, remainder due at that time, secured by mortgage on property and an assignment of rents	2,843,981	-
5.64% construction note payable, due in monthly installments of \$116,225, including interest, until June 2015, remainder due at that time, secured by mortgage on property and an assignment of the executed lease	809,003	-
Notes paid in full during 2008	-	892,503
	<u>\$ 141,531,558</u>	<u>\$ 76,815,184</u>

The mortgage notes agreements include covenants that, in part, impose maintenance of certain debt service coverage and debt to worth ratios.

Long-term debt maturities are as follows:

<u>Years ending December 31,</u>	<u>Amount</u>
2009	\$ 3,449,590
2010	13,180,146
2011	4,745,778
2012	8,701,599
2013	35,738,917
Thereafter	<u>75,715,528</u>
	<u>\$ 141,531,558</u>

NOTE 7 - NOTES PAYABLE

INREIT has a \$6,000,000 variable rate (4.0% at December 31, 2008) line of credit agreement with Bremer Bank, which expires on September 15, 2009. At December 31, 2008, there was no outstanding balance on the line of credit.

INREIT has a \$2,500,000 variable rate (3.75% at December 31, 2008) line of credit agreement with Wells Fargo Bank, which expires on June 15, 2009. At December 31, 2008, there was no outstanding balance on the line of credit.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8 - HEDGING ACTIVITIES

As part of INREIT's interest rate risk management strategy, INREIT uses a derivative instrument to minimize significant unanticipated earnings fluctuations that may arise from rising variable interest rate costs associated with existing borrowings. To meet these objectives the Company entered into an interest rate swap in the amount of \$1,293,900 to provide a fixed rate of 7.25%, which matures on April 15, 2020. The swap was issued at approximate market terms and thus no fair value adjustment was recorded at its inception. The carrying amount of the swap has been adjusted to its fair value at the end of the year, which because of changes in forecasted levels of LIBOR resulted in reporting a liability for the fair value of the future net payments forecasted under the swap. This interest rate swap is accounted for as an effective hedge in accordance with SFAS No. 133 whereby it is recorded at fair value and changes in fair value are recorded to comprehensive income. As of December 31, 2008, INREIT has recorded a liability and other comprehensive loss of \$285,850, of which \$211,488 is recorded in minority interest.

NOTE 9 - FAIR VALUE MEASUREMENT

In September 2006 the FASB issued SFAS 157 and in February 2007 issued SFAS 159. Both standards address the aspects of the expanding application of fair value accounting. Effective January 1, 2008, INREIT adopted SFAS 157 and SFAS 159. There were no adjustments to accumulated deficit as a result of the adoption of SFAS 157. SFAS 159 permits a company to measure certain financial assets and financial liabilities at fair value that were not previously required to be measured at fair value. INREIT has elected not to measure any financial assets or financial liabilities at fair value which were not previously required to be measured at fair value.

SFAS 157 established a three-level valuation hierarchy for fair value measurement. Management uses these valuation techniques to establish the fair value of the assets at the measurement date. These valuation techniques are based upon observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect managements assumptions. These two types of inputs create the following fair value hierarchy:

- Level 1 – Quoted prices for identical instruments in active markets;
- Level 2 – Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose significant inputs are observable;
- Level 3 – Instruments whose significant inputs are unobservable.

Assets measured at fair value on a recurring basis in accordance with FAS 157:

Liabilities	Total 12/31/08	Quoted Prices: Level 1	Significant Other Inputs: Level 2	Significant Nonobservable Inputs: Level 3
Fair value of interest rate swap	\$ 285,850	\$ -	\$ 285,850	\$ -

INREIT has no financial assets or liabilities measured at fair value as of December 31, 2007.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 10 - INVESTMENT CERTIFICATES

INREIT periodically issues investment certificates bearing various interest rates in exchange for cash. The interest rate depends upon the maturity of the investment certificate. During 2008, INREIT issued investment certificates ranging from 4.5 to 7 percent totaling \$190,798. During 2007, INREIT issued investment certificates ranging from 6 to 7 percent totaling \$69,338. At December 31, 2008 and 2007, INREIT had outstanding investment certificates totaling \$378,037 and \$230,427, respectively.

Maturities of investment certificates are as follows: 2009 - \$246,909; 2010 - \$33,000; 2011 - \$78,128; 2012 - \$20,000.

NOTE 11 - SPECIAL ASSESSMENTS PAYABLE

At December 31, 2008 and 2007, special assessments payable totaled \$1,535,100 and \$849,581, respectively. Future principal payments related to special assessments payable over the next five years are as follows:

<u>Years ending December 31,</u>	<u>Amount</u>
2009	\$ 200,074
2010	195,920
2011	191,214
2012	179,199
2013	131,921
Thereafter	636,772
	<u>\$ 1,535,100</u>

NOTE 12 - ACCRUED EXPENSES

	<u>2008</u>	<u>2007</u>
Real estate taxes	\$ 1,724,018	\$ 667,825
Interest	583,971	308,621
Unearned rent	74,906	-
Other	2,407	1,808
	<u>\$ 2,385,302</u>	<u>\$ 978,254</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 13 - MINORITY INTEREST OF UNITHOLDERS IN OPERATING PARTNERSHIPS

As of December 31, 2008 and 2007, minority shareholders partnership units totaled 9,662,068 and 4,925,316, respectively. During 2008 and 2007, the INREIT paid dividends of \$4,171,834 and \$1,346,818, respectively, to minority interest shareholders. As of December 31, 2008 and 2007, INREIT had declared dividends of \$1,548,231 and \$747,635, respectively, to minority shareholders to be paid the following year.

During 2008 and 2007, minority shareholders converted 47,978 and 57,799 partnership units to INREIT shares, totaling \$580,499 and \$577,830, respectively.

NOTE 14 - RELATED PARTY TRANSACTIONS

Due from related party as of December 31, 2008 and 2007 is as follows:

	<u>2008</u>	<u>2007</u>
Goldmark Property Management	\$ 151,557	\$ 684,712
Edgewood Vista Senior Living, Inc.	<u>292,802</u>	<u>-</u>
	<u><u>\$ 444,359</u></u>	<u><u>\$ 684,712</u></u>

Due to related party as of December 31, 2008 and 2007 is as follows:

	<u>2008</u>	<u>2007</u>
DL/JKJD, LLC	\$ 656,245	\$ 201,972
INREIT Management, LLC	594,122	102,113
HSC Partner, LLC	<u>350,539</u>	<u>245,056</u>
	<u><u>\$ 1,600,906</u></u>	<u><u>\$ 549,141</u></u>

Property Management Fees

During 2008 and 2007, INREIT paid property management fees of 5 percent of rents to INREIT Management, LLC. The management team of INREIT Management, LLC consists of Board of Trustee members Kenneth Regan and James Wieland. For the years ended December 31, 2008 and 2007, INREIT paid management fees of \$18,022 and \$17,681, respectively, to INREIT Management, LLC.

During 2008 and 2007, INREIT paid property management fees of 5 percent of rents to Goldmark Property Management. The management team of Goldmark Property Management consists of Board of Trustee members Kenneth Regan and James Wieland. For the years ended December 31, 2008 and 2007, INREIT incurred management fees of \$1,690,001 and \$421,019, respectively, to Goldmark Property Management.

Director Fees

INREIT paid director fees of \$37,650 and \$19,000 in 2008 and 2007, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Advisory Management Fees

During 2008 and 2007, INREIT incurred \$610,686 and \$341,199 to INREIT Management, LLC for advisory management fees. As of December 31, 2008 and 2007, the Company owed INREIT Management, LLC \$65,822 and \$102,113, respectively, for unpaid advisory management fees. These fees cover the office facilities, equipment, supplies, and staff required to manage the day-to-day operations of INREIT, and is paid based on 1% (through September 2007) and .75% (after September 2007) of net invested asset from these facilities (Note 19).

Acquisition Fees

During 2008 and 2007, INREIT incurred \$3,283,900 and \$1,660,050, respectively, to INREIT Management, LLC for acquisition fees. These fees are for performing due diligence on properties acquired in a I.R.C Section 721 exchange, and are paid on 3% of the purchase price up to a maximum of \$150,000 per individual property (Note 19). As of December 31, 2008, INREIT owed \$528,300 to INREIT Management, LLC for acquisition fees.

Commissions

During 2008 and 2007, INREIT incurred brokerage fees of \$455,203 and \$781,640, respectively, to Roger Domres, or entities owned by Roger Domres, stockholder of INREIT and a shareholder of INREIT Management, LLC. Brokerage fees are paid based on 4% of UPREIT units and 8% of INREIT units sold. During 2008 and 2007, INREIT incurred marketing fees of \$591,090 and \$626,622, respectively, to HSC Partner, LLC, an entity owned by Roger Domres. As of December 31, 2008 and 2007, INREIT owed \$350,539 and \$245,056, respectively, to HSC Partner, LLC for brokerage and marketing fees.

During 2008 and 2007, INREIT incurred brokerage fees of \$1,788,081 and \$1,257,343 to Dale Lian, or entities owned by Dale Lian, stockholder of INREIT and a shareholder of INREIT Management, LLC. Brokerage fees are paid based on 4% of UPREIT units and 8% of INREIT units sold. As of December 31, 2008 and 2007, INREIT owed \$656,245 and \$201,972, respectively, to Dale Lian, or entities owned by Dale Lian, for brokerage fees.

Rental Income

During 2008 and 2007, INREIT received rental income of \$706,893 and \$1,102,749, respectively, under various lease agreements with Edgewood Vista Senior Living, Inc., an entity affiliated with Philip Gisi, a member of the Board of Trustees. As of December 31, 2008, INREIT was owed \$157,806 from Edgewood Vista Senior Living, Inc. for real estate taxes related to the properties.

During 2008 and 2007, INREIT received rental income of \$155,885 and \$76,154, respectively, under an operating lease agreement with Goldmark Property Management.

As of December 31, 2008, INREIT was owed \$54,794 from Goldmark Property Management for rent collected during 2008 which was not paid to INREIT.

Interest Receivable

As of December 31, 2008, INREIT was owed \$134,996 from Edgewood Vista Senior Living, Inc. for rental interest related to the construction of the Edgewood Vista Senior Living Center. The rental interest is based on INREIT's equity in the construction of the complex.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Insurance Proceeds

As of December 31, 2008, INREIT was owed \$138,480 from Goldmark Property Management for insurance proceeds related to damages sustained to a residential complex.

Restricted Deposits

As of December 31, 2008, INREIT owed \$41,717 to Goldmark Property Management for security deposits maintained by INREIT, which were owed to Goldmark Property Management. As of December 31, 2007, INREIT was owed \$684,712 from Goldmark Property Management for deposits maintained by Goldmark, which were owed to INREIT.

Investment Certificates

During 2008, Dale Lian purchased an investment certificate from INREIT totaling \$100,000. The certificate was outstanding as of December 31, 2008. The certificate accrues interest at 4.5% and matures in April 2009.

Construction Costs / Development Fees

During 2008, INREIT incurred construction costs and development fees of \$1,536,838 to Edgewood Development Group, an entity affiliated with Philip Gisi. As of December 31, 2008, INREIT owed \$201,543 to \$201,543 was owed to Edgewood Development Group for developer fees.

Purchases

During 2008, INREIT purchased an 80 unit apartment complex in Fargo, North Dakota, from an entity affiliated with James Wieland, a related party. The approximate purchase price of the complex was \$2,723,000.

During 2008, INREIT purchased a 12 unit apartment building in Grand Forks, North Dakota, from an entity affiliated with Dale Lian. The approximate purchase price of the building was \$741,000.

During 2008, INREIT purchased a 12 unit apartment building in Fargo, North Dakota, from an entity affiliated with Kenneth Regan and Dale Lian; related parties. The approximate purchase price of the building was \$450,000.

During 2008, INREIT purchased 15 apartment complexes from various entities affiliated with Kenneth Regan and James Wieland. The approximate purchase price of the complexes was \$43,179,000.

During 2008, INREIT purchased two apartment complexes from various entities affiliated with Kenneth Regan, James Wieland, and Dale Lian. The approximate purchase price of the complexes was \$8,995,000.

During 2008, INREIT purchased six apartment complexes from various entities affiliated with Kenneth Regan, James Wieland, Dale Lian, and James Echtenkamp; related parties. The approximate purchase price of the complexes was \$16,217,000.

During 2007, INREIT purchased land for future development in Bismarck, North Dakota, for a purchase price of approximately \$1,500,000 from an entity affiliated with Philip Gisi.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

During 2007, INREIT purchased eight apartment complexes in various locations for a total purchase price of approximately \$34,590,000 from entities affiliated with Kenneth Regan, James Wieland and Dale Lian, in varying ownership interests.

During 2007, INREIT purchased a 128,385 square foot commercial office building in Fargo, North Dakota, for a purchase price of \$17,400,000, from an entity affiliated with Kenneth Regan, James Wieland and Dale Lian.

During 2007, INREIT purchased a 72 unit apartment complex in Grand Forks, North Dakota, for a purchase price of approximately \$4,800,000 from Goldmark Development Corporation, a related party through Kenneth Regan, James Wieland and Dale Lian.

Sales

During 2008, INREIT sold four, 12 unit assisted living facilities in Grand Island, Nebraska; Norfolk, Nebraska; Columbus, Nebraska; and Belgrade, Montana. The facilities were sold to an entity affiliated with Philip Gisi. The sales price of the facilities totaled approximately \$4,610,000.

NOTE 15 - RENTALS UNDER OPERATING LEASES / RENTAL INCOME

Commercial space is rented under long-term lease agreements. Minimum future rentals on noncancelable operating leases as of December 31 are as follows:

<u>Years ending December 31,</u>	<u>Amount</u>
2009	\$ 9,210,248
2010	8,678,606
2011	7,861,008
2012	6,778,775
2013	6,407,779
Thereafter	<u>15,397,370</u>
	<u><u>\$ 54,333,786</u></u>

Residential apartment units are rented to individual tenants with lease terms up to one year. Gross revenues from residential rentals totaled \$13,578,743 and \$3,405,135 for the years ended December 31, 2008 and 2007, respectively.

For the years ended December 31, 2008 and 2007, gross revenues from commercial property rentals, including CAM (common area maintenance) income of \$3,368,908 and \$813,930, respectively, totaled \$12,161,908 and \$7,135,423. Commercial properties are leased to tenants under terms expiring at various dates through 2023. Lease terms often include renewal options.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 16 - PROPERTY MANAGEMENT FEES

INREIT has entered into various management agreements with unrelated management companies. The agreements provide for INREIT to pay management fees based on a percentage of rental income (4 to 5%), a set fee per month (\$1,000 - \$2,500 per month). During 2008 and 2007, INREIT incurred property management fees of \$189,145 and \$510,478, respectively, to unrelated management companies.

During 2008 and 2007, INREIT incurred management fees of 5% of rents to INREIT Management, LLC; and Goldmark Property Management, a related party (Note 12).

NOTE 17 - COMMITMENTS AND CONTINGENCIES

Environmental Matters

Federal law (and the laws of some states in which INREIT may acquire properties) imposes liability on a landowner for the presence on the premises of hazardous substances or wastes (as defined by present and future federal and state laws and regulations). This liability is without regard to fault or knowledge of the presence of such substances and may be imposed jointly and severally upon all succeeding landowners. If such hazardous substance is discovered on a property acquired by INREIT, INREIT could incur liability for the removal of the substances and the cleanup of the property. There can be no assurance that INREIT would have effective remedies against prior owners of the property. In addition, INREIT may be liable to tenants and may find it difficult or impossible to sell the property either prior to or following such a cleanup.

Risk of Uninsured Property Losses

INREIT maintains property damage, fire loss, and liability insurance. However, there are certain types of losses (generally of a catastrophic nature), which may be either uninsurable or not economically insurable. Such excluded risks may include war, earthquakes, tornados, certain environmental hazards, and floods. Should such events occur, (i) the INREIT might suffer a loss of capital invested, (ii) tenants may suffer losses and may be unable to pay rent for the spaces, and (iii) the trust may suffer a loss of profits which might be anticipated from one or more properties.

Construction in Progress

As of December 31, 2008, construction was in progress on Edgewood Vista Senior Living Center, a senior living facility in Bismarck, North Dakota. As of December 31, 2008, INREIT had incurred costs of \$8,647,151 relating to the construction of the project. The project is expected to be completed in January 2010 at a cost of approximately \$26,000,000. As of December 31, 2008, INREIT owed \$1,561,050 related to construction costs.

Deferred Insurance Proceeds

During 2008, INREIT received insurance proceeds in the amount of \$291,152 for damage sustained. It is expected that INREIT will complete the repairs in 2009 at an unknown cost.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Tenant in Common Ownership

As a tenant in common, INREIT owns their respective share of the assets of the properties as well as being liable for their respective share of the debts. INREIT owned the following properties as a tenant in common.

INREIT Properties, LLLP is the 100% owner of Grand Forks Inreit, LLC, which owns a 1/3 interest as a tenant in common of Grand Forks Marketplace Retail Center. INREIT Properties, LLLP is also the 50% owner of Marketplace Investors, LLC, which owns a 1/3 interest as a tenant in common of Grand Forks Marketplace Retail Center. Grand Forks Marketplace Retail Center has approximately 183,000 square feet of commercial space in Grand Forks, North Dakota. The property is encumbered by a non-recourse first mortgage with Key Bank Real Estate Capital with a balance at December 31, 2008 of \$12,728,283. As of December 31, 2008, INREIT owed \$6,364,141 for their respective share of the balance.

INREIT Properties, LLLP owns a 2/3 interest as a tenant in common of a commercial building with approximately 75,000 square feet of rental space in Fargo, North Dakota. The property is encumbered by a first mortgage with GE Commercial Finance Business Property Corporation with a balance at December 31, 2008 in the amount of \$7,869,638. As of December 31, 2008, INREIT owed \$5,246,425 for its respective share of the balance. INREIT along with the other tenant in common is jointly liable for the entire balance.

INREIT Properties, LLLP owns a 1/3 interest as a tenant in common of a 136 unit apartment complex located in Bismarck, North Dakota. The property is encumbered by Phase I and Phase II first mortgages with NorthMarq Capital with a balance at December 31, 2008 in the amount of \$2,950,389 and \$3,657,918, respectively. As of December 31, 2008, INREIT owed \$983,463 and \$1,219,306, respectively, for its share of the balances. INREIT along with the other tenant in common is jointly liable for the entire balance.

NOTE 18 - OTHER COMPREHENSIVE LOSS

The details related to other comprehensive loss are as follows:

	<u>2008</u>	<u>2007</u>
Net income before minority interest	<u>\$ 4,042,793</u>	<u>\$ 1,613,116</u>
Other comprehensive loss		
Decrease in fair value of interest rate swap	<u>(285,850)</u>	<u>-</u>
Total other comprehensive loss	<u>(285,850)</u>	<u>-</u>
Comprehensive income	<u>3,756,943</u>	<u>1,613,116</u>
Comprehensive income attributable to the minority interest	<u>2,779,592</u>	<u>912,217</u>
Comprehensive income attributable to INREIT Real Estate Investment Trust	<u>\$ 977,351</u>	<u>\$ 700,899</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 19 - SUBSEQUENT EVENTS

Subsequent to year-end, INREIT Properties, LLLP, owner of INREIT Stony Brook, LLC, purchased an apartment complex in Omaha, Nebraska. The approximate purchase price of the complex was \$9,220,000.

Subsequent to year-end, INREIT purchased a 102,448 square foot commercial office building in Edina, Minnesota. The approximate purchase price of the complex was \$13,100,000.

Subsequent to year-end, INREIT declared a dividend of \$0.18625 per share to shareholders of record as of March 31, 2009, to be payable in April 2009.

Subsequent to year-end, INREIT approved a change to the Advisory Contract with INREIT Management, LLC. As of January 1, 2009, advisory management fees will be incurred at .50% of net invested assets from the facilities managed by the Company. In addition, acquisition fees will increase to a maximum of \$300,000 per individual property.

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INREIT

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