

MANAGEMENT'S DISCUSSION AND ANALYSIS

(All dollar references other than per unit amounts are in thousands).

Management's discussion and analysis of financial condition and results of operations should be read in conjunction with the unaudited interim financial statements of Allied Properties Real Estate Investment Trust (the "REIT") prepared as at June 30, 2003 and for the 132-day period from the commencement of operations of the REIT on February 19, 2003 to June 30, 2003 and for the quarter ended June 30, 2003.

The REIT is an unincorporated closed-end real estate investment trust created pursuant to the Declaration of Trust dated October 25, 2002, as amended and restated on February 6, 2003. The REIT is governed by the laws of Ontario. The units of the REIT are traded on the Toronto Stock Exchange.

The objectives of the REIT are to provide stable cash distributions to unitholders and to maximize unitholder value through the effective management and the accretive growth of the REIT's portfolio.

Financial Results

The REIT's second quarter financial results are summarized below:

(In thousand except for per unit amounts)	April 1 to June 30, 2003	Prospectus Forecast	Variance to Prospectus Forecast
Revenue from rental properties	\$4,989	\$5,218	\$(229)
Rental property operating cost	1,579	2,005	426
Net rental income	3,410	3,213	197
Financing expense	1,060	1,205	145
Depreciation and amortization	234	222	(12)
Income from operations	2,116	1,786	330
Trust expenses	339	285	(54)
Net income	1,777	1,501	276
Amortization on rental properties	224	219	5
Amortization on mortgage premium	(100)	-	(100)
Distributable Income ¹	\$1,901	\$1,720	\$181
Net income per unit	\$0.293	\$0.248	\$0.045
Distributable Income per unit	\$0.313	\$0.285	\$0.028

¹ Distributable income, which is not defined within Canadian generally accepted accounting principles, has been calculated in accordance with the terms of the Declaration of Trust.

Net rental income for the quarter ended June 30, 2003 of \$3,410 was \$197 better than forecasted due to new leasing activity, better than expected lease renewals and better than expected incidental revenues.

Recoverable operating expenses were lower than forecast resulting in corresponding reductions of operating recoveries and therefore rental revenues. Otherwise, rental revenue would have exceeded forecast.

Net income for the quarter ended June 30, 2003 of \$1,777 exceeded the forecast by \$276, as a result of better than expected net rental income (\$197 over forecast), lower financing costs (\$145 less than forecast). These favourable variances were partially offset by higher amortization (\$12 higher than forecast) and higher trust expenses (\$54 higher than forecast).

The REIT's financial results for the 132-day period from the commencement of operations on February 19, 2003 to June 30, 2003 are summarized below:

(In thousands except for per unit amounts)	February 19 to June 30, 2003	Prospectus Forecast ¹	Variance to Prospectus Forecast	Pro-rated Forecast ²	Variance to Pro-rated Forecast
Revenue from rental properties	\$7,347	\$10,474	\$(3,127)	\$7,558	\$(211)
Rental property operating cost	2,417	3,973	1,556	2,862	445
Net rental income	4,930	6,501	(1,571)	4,696	234
Financing expense	1,525	2,416	891	1,746	221
Depreciation and amortization	336	442	106	320	(16)
Income from operations	3,069	3,643	(574)	2,630	439
Trust expenses	472	570	98	414	(58)
Net income	2,597	3,073	476	2,216	381
Amortization on rental properties	323	438	(115)	317	6
Amortization on mortgage premium	(148)	-	(148)	-	(148)
Distributable Income ³	\$2,772	\$3,511	\$(739)	\$2,533	\$239
Net income per unit	\$0.429	\$0.508	\$(0.079)	\$0.366	\$0.063
Distributable Income per unit	\$0.457	\$0.581	\$(0.124)	\$0.420	\$0.037

¹ The forecast in the Prospectus assumed the completion of the IPO and the acquisition of the initial properties by the REIT on January 1, 2003.

² The forecast included in the Prospectus pro-rated for the period of operations of the REIT from February 19, 2003 to June 30, 2003. These figures have been prepared by management and are unaudited.

³ Distributable income, which is not defined within Canadian generally accepted accounting principles, has been calculated in accordance with the terms of the Declaration of Trust.

Results for the 132-day period ended June 30, 2003 do not compare to the six-month forecast included in the Prospectus, as the REIT commenced operations on February 19, 2003. On a pro-rated basis, actual results compared favourably to the forecast.

The net rental income for the 132-day period ended June 30, 2003 of \$4,930, was \$234 better than pro-rated forecast due to new leasing activity, better than expected lease renewals and better than expected incidental revenues.

Recoverable operating expenses were lower than pro-rated forecast resulting in corresponding reductions of operating recoveries and therefore rental revenues. Otherwise, rental revenue would have been better than expected.

Net income for the 132-day period ended June 30, 2003 of \$2,597 exceeded the pro-rated forecast by \$381, as a result of better than expected net rental income (\$234 over pro-rated forecast), lower financing costs (\$221 less than pro-rated forecast). These favourable variances were partially offset by higher amortization (\$16 higher than pro-rated forecast) and higher trust expenses (\$58 higher than pro-rated forecast).

Distributable Income

Distributions for the quarter ended June 30, 2003 were \$1,670 which corresponds to a pay-out ratio of 87.9%, compared to the expected pay-out ratio of 90%. Distributable income for the quarter was \$0.313 per unit, compared to the pro-rated forecast of \$0.285 per unit.

Distributions for the 132 day period ended June 30, 2003 were \$2,402, which corresponds to a pay-out ratio of 86.7%, compared to the expected pay-out ratio of 90%. Distributable income for the 132-day period was \$0.457 per unit, compared to the pro-rated forecast of \$0.420 per unit.

Subsequent to June 30, 2003 the REIT declared a distribution of \$0.09166 per unit to unitholders of record as of July 31, 2003, payable on August 15, 2003.

Distribution Reinvestment Plan

The REIT implemented a Distribution Reinvestment Plan (the "DRIP") in March, 2003. The DRIP provides unitholders with the option of reinvesting their total monthly cash distributions in additional units of the REIT without incurring brokerage commissions or other transaction cost. As an incentive to participate, the DRIP entitles unitholders to receive additional units equal in value to 5% of the monthly cash distribution otherwise payable to them. The DRIP is administered by the REIT's transfer agent, CIBC Mellon Trust Company.

Leasing Activity

During the quarter ended June 30, 2003, the REIT leased 5,542 square feet to a new tenant at 425-439 King Street West for a term of 10 years commencing August 1, 2003. This brings the total amount of space leased since commencement of operations to 14,783 square feet and the leased area in the REIT's portfolio to 97.8%. Additional progress was made in the second quarter on 2003 renewals, bringing the renewal rate thus far in 2003 to 77.7%, slightly ahead of forecast.

Financing and Trust Expenses

Financing expense consists of interest on mortgages payable, less the amortization of the premium on the mortgages payable that were assumed on acquisition of the initial properties.

Financing expense of \$1,060 for the quarter ended June 30, 2003 was \$145 lower than the forecast of \$1,205. The lower financing costs resulted from lower debt utilization (\$45 less than forecast) and the amortization of the premium on the mortgages payable (\$100 less than forecast).

Financing expense of \$1,525 for the 132-day period ended June 30, 2003 was \$221 lower than the pro-rated forecast of \$1,746. The lower financing costs resulted from lower debt utilization (\$73 less than pro-rated forecast) and the amortization of the premium on the mortgages payable (\$148 less than pro-rated forecast).

Subject to any significant negative change to variable interest and before taking into account increased financing costs due to acquisitions in the year, management expects financing expense will be lower than that reflected in the prospectus forecast for the balance of 2003.

Trust expenses for the quarter ended June 30, 2003 of \$339 were \$54 higher than with the forecast. Expenditures relating to the development of the REIT's website were expensed in the quarter ended June 30, 2003.

Liquidity and Capital Resources

The REIT finances its operations through three sources of capital: (i) mortgage debt secured by the REIT's properties, (ii) secured short-term financing through its \$5,000 revolving credit facility (the "Operating Credit Facility") with a Canadian chartered bank and (iii) equity. As at June 30, 2003 the REIT had mortgage debt of \$65,436, unitholders' equity of \$56,551, and bank indebtedness of \$1,432 under the Operating Credit Facility.

The debt to gross book value was 52.2%, substantially below the 60% threshold as mandated by REIT's Declaration of Trust.

During the quarter ended June 30, 2003, the REIT increased mortgage financing on one of its rental properties that matured in June, 2003 in an amount that was sufficient to repay and discharge another mortgage loan on another rental property. This has provided the REIT additional flexibility for future financing, if required. The renewed mortgage loan has a term of 15 years, bear interest at 6.88% and has an amortization period of 20 years.

The REIT plans to fund anticipated capital expenditures and leasing costs using cash flow from operations retained by the REIT and through available borrowing capacity under the Operating Credit Facility. As at June 30, 2003, the REIT had borrowing capacity under the Operating Credit Facility of \$3,568.

The REIT also has a \$5,000 acquisition credit facility with a Canadian chartered bank, (the "Acquisition Credit Facility").

Capital Expenditures

The REIT's portfolio requires ongoing investments for general capital improvements, tenant installation costs related to new and renewal leasing. These include providing tenants build-out allowances and paying leasing commissions. For the quarter and the 132-day period ended June 30, 2003, expenditures for capital improvements were \$122 and \$141, respectively, all of which related to space leased to new tenants. Expenditures for leasing costs were \$73 for the period, all of which were incurred in the quarter ended June 30, 2003.

Mortgages Payable

Generally accepted accounting principals require that the mortgages payable assumed on acquisition of properties be recorded at fair value. The fair value of the mortgages payable has been determined by discounting the cash flows of these financial obligations using market rates for debt of similar terms and credit risks. Based on these assumptions, the fair value of mortgages payable at the time of acquisition, and therefore the amount at which they were recorded at that time, was \$66,956. (The face value (legal liability) of the mortgages payable at the time of acquisition was \$65,994).

Accounts Payable

Payables and accrued liabilities of \$3,046 included general operating payables and tenant deposits of \$2,471 and accrued interest on mortgages payable of \$352 and \$223 of deferred revenue.

Risk and Uncertainties

There are certain risk factors inherent in the investment and ownership of real estate. Such investments are capital intensive and success depends on maintaining occupancy levels and rental income flows to generate acceptable returns. These success factors are dependent on general economic conditions and local real estate markets, demand for leased premises and competition from other available properties.

The REIT's portfolio is focused on a particular asset class in the largest metropolitan real estate market in Canada. This concentration enables Management to capitalize on certain economies of scale and competitive advantages that would not otherwise be available, and contributes to mitigating the risk associated with the real estate ownership.

The REIT is also subject to risk associated with debt financing. The availability of debt to re-finance existing and maturing loans and the cost of servicing such debt will influence the success of the REIT. In order to minimize risk associated with debt financing, the REIT will attempt to re-finance maturing loans with long term fixed rate debt and to stagger the maturities over time.