

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 September 30, 2003 and for the 224-day period from the commencement of operations of the REIT on February 19, 2003 to September 30, 2003 and for the quarter ended September 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 third quarter financial results are summarized below:

(In thousand except for per unit amounts)	July 1 to September 30, 2003	Prospectus Forecast	Variance to Prospectus Forecast
Revenue from rental properties	\$5,057	\$5,282	\$(225)
Rental property operating cost	1,610	1,811	201
Net rental income	3,447	3,471	(24)
Financing expense	1,086	1,192	106
Depreciation and amortization	241	231	(10)
Income from operations	2,120	2,048	72
Trust expenses	282	285	3
Net income	1,838	1,763	75
Amortization on rental properties	220	219	1
Amortization on mortgage premium	(74)	-	(74)
Distributable Income ¹	\$1,984	\$1,982	\$2
Net income per unit	\$0.302	\$0.292	\$0.010
Distributable Income per unit	\$0.326	\$0.328	\$(0.002)

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.

Recoverable operating expenses for the quarter were lower than forecast, resulting in corresponding reductions in operating recoveries, administration fees and rental revenue. Otherwise, rental revenue was consistent with forecast. Net rental income of \$3,447 was lower than forecast by \$24, as a result of lower administration fees (a direct result of the lower recoverable operating expense).

Net income of \$1,838 was higher than forecast by \$75, as a result of lower financing costs (\$106 lower than forecast), which were partially offset by higher amortization (\$10 higher than forecast) and lower net rental income (\$24 lower than forecast).

The REIT's financial results for the 224-day period from the commencement of operations on February 19, 2003 to September 30, 2003 are summarized below:

(In thousands except for per unit amounts)	February 19 to September 30, 2003	Prospectus Forecast ¹	Variance to Prospectus Forecast	Pro-rated Forecast ²	Variance to Pro-rated Forecast
Revenue from rental properties	\$12,404	\$15,756	\$(3,352)	\$12,840	\$(436)
Rental property operating cost	4,027	5,784	1,757	4,673	646
Net rental income	8,377	9,972	(1,595)	8,167	210
Financing expense	2,611	3,608	997	2,938	327
Depreciation and amortization	577	673	96	551	(26)
Income from operations	5,189	5,691	(502)	4,678	511
Trust expenses	754	855	101	699	(55)
Net income	4,435	4,836	(401)	3,979	456
Amortization on rental properties	543	657	(114)	536	7
Amortization on mortgage premium	(222)	-	(222)	-	(222)
Distributable Income³	\$4,756	\$5,493	\$(737)	\$4,515	\$241
Net income per unit	\$0.730	\$0.800	\$(0.070)	\$0.658	\$0.072
Distributable Income per unit	\$0.783	\$0.909	\$(0.126)	\$0.747	\$0.036

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 September 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 224-day period ended September 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.

Recoverable operating expenses for the 224-day period were lower than pro-rated forecast, resulting in corresponding reductions in operating recoveries, administration fees and rental revenue. Otherwise, rental revenue was higher than pro-rated forecast. Net rental income of \$8,377, was higher than pro-rated forecast by \$210, as a result of new leasing activity, better than expected lease renewals and better than expected incidental revenues.

Net income of \$4,435 was higher than pro-rated forecast by \$456, as a result of higher net rental income (\$210 higher than pro-rated forecast) and lower financing costs (\$327 lower than pro-rated forecast).

These favourable variances were partially offset by higher amortization (\$26 higher than pro-rated forecast) and higher trust expenses (\$55 higher than pro-rated forecast).

Distributable Income

Distributions for the quarter were \$1,675, which corresponds to a pay-out ratio of 84.4%, compared to the expected pay-out ratio of 90%. Distributable income was \$0.326 per unit, compared to the pro-rated forecast of \$0.328 per unit.

Distributions for the 224-day period ended September 30, 2003 were \$4,077, which corresponds to a pay-out ratio of 85.7%, compared to the expected pay-out ratio of 90%. Distributable income was \$0.783 per unit, compared to the pro-rated forecast of \$0.747 per unit.

Subsequent to September 30, 2003 the REIT declared a distribution of \$0.09166 per unit to unitholders of record as of September 30, 2003, payable on October 15, 2003.

Leasing Activity

In the quarter, the REIT leased 3,805 square feet of space at 358-360 Adelaide West and extended the lease term on 6,748 square feet of retail space at 500 King Street West to September 2012. By the end of the quarter, the REIT had increased its leased area to 98% and achieved its lease renewal objectives for 2003.

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 \$1,086 for the quarter was \$106 lower than the forecast of \$1,192. The lower financing costs resulted from lower debt utilization (\$32 lower than forecast) and the amortization of the premium on the mortgages payable (\$74 lower than forecast).

Financing expense of \$2,611 for the 224-day period ended September 30, 2003 was \$327 lower than the pro-rated forecast of \$2,938. The lower financing costs resulted from lower debt utilization (\$105 lower than pro-rated forecast) and the amortization of the premium on the mortgages payable (\$222 lower than pro-rated forecast).

Trust expenses for the quarter of \$282 were consistent with the forecast. Trust expenses for the 224-day period ended September 30, 2003, of \$754 were \$55 higher than pro-rated forecast.

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 September 30, 2003 the REIT had mortgage debt of \$65,045, unitholders' equity of \$56,857, and bank indebtedness of \$1,782 under the Operating Credit Facility.

The debt to gross book value was 51.8%, substantially below the 60% threshold as mandated by REIT's Declaration of Trust.

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 September 30, 2003, the REIT had borrowing capacity under the Operating Credit Facility of \$3,218.

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 224-day period ended September 30, 2003, expenditures for capital improvements were \$41 and \$182, respectively, all of which related to space leased to new tenants. Expenditures for leasing costs were \$218 for the 224-day period, of which \$145 were incurred during the quarter ended September 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 \$3,419 included general operating payables and tenant deposits of \$2,948 and accrued interest on mortgages payable of \$362 and \$109 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.