



**ALLIED PROPERTIES REAL ESTATE INVESTMENT TRUST**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION**

**SEPTEMBER 30, 2008**

**DATED NOVEMBER 10, 2008**

## TABLE OF CONTENTS

<b>PART I</b>	
Forward-Looking Disclaimer	3
Business Overview and Strategy	4
Performance Measures	5
Business Environment and Outlook	7
<b>PART II</b>	
Summary Information and Performance for the Nine-Month Period Ended September 30, 2008	9
Distributable Income	13
Funds From Operations	14
Adjusted Funds From Operations	14
Net Operating Income	15
<b>PART III</b>	
Financial Condition	16
Liquidity and Commitments	17
<b>PART IV</b>	
Summary Information and Performance for the Three-Month Period Ended September 30, 2008	18
<b>Part V</b>	
Summary Quarterly Information and Performance	20
<b>Part VI</b>	
Critical Accounting Estimates	21
Future Changes in Accounting Policies	21
<b>PART VII</b>	
Related Party Transactions	22
<b>PART VIII</b>	
Risk and Uncertainties	23
<b>PART IX</b>	
Subsequent Events	26
<b>PART X</b>	
Disclosure Controls and Internal Controls	27
<b>PART XI</b>	
Property Table	28

## PART I

### Forward-Looking Disclaimer

The terms “Allied Properties”, “the REIT”, “we”, “us” and “our” in the following Management’s Discussion and Analysis of Results of Operations and Financial Condition (“MD&A”) refer to Allied Properties Real Estate Investment Trust and its consolidated financial position and results of operations for the three-month and nine-month periods ended September 30, 2008. This MD&A is based on financial statements prepared in accordance with Canadian generally accepted accounting principles (“GAAP”). This MD&A should be read in conjunction with our consolidated financial statements and notes thereto for the three-month and nine-month periods ended September 30, 2008, and the year ended December 31, 2007. Historical results and percentage relationships contained in our consolidated financial statements and MD&A, including trends that might appear, should not be taken as indicative of our future results, operations or performance. Unless otherwise indicated, all amounts in this MD&A are in thousands of Canadian dollars.

Certain information included in this MD&A contains forward-looking statements within the meaning of applicable securities laws, including, among other things, statements concerning our objectives and our strategies to achieve those objectives, statements with respect to Management’s beliefs, plans, estimates and intentions and statements concerning anticipated future events, circumstances, expectations, results, operations or performance that are not historical facts. Forward-looking statements can be identified generally by the use of forward-looking terminology, such as “indicators”, “outlook”, “objective”, “may”, “will”, “expect”, “intend”, “estimate”, “anticipate”, “believe”, “should”, “plans”, “continue” or similar expressions suggesting future outcomes or events. Such forward-looking statements reflect Management’s current beliefs and are based on information currently available to Management.

The forward-looking statements in this MD&A are not guarantees of future results, operations or performance and are based on estimates and assumptions that are subject to risks and uncertainties, including those described below in this MD&A under “Risks and Uncertainties”, which could cause actual results, operations or performance to differ materially from the forward-looking statements in this MD&A. Those risks and uncertainties include risks associated with property ownership, property development, geographic focus, asset-class focus, competition for real property investments, financing and interest rates, government regulations, environmental matters, construction liability, unitholder liability and taxation. Material assumptions that were made in formulating the forward-looking statements in this MD&A include the following: that our current target markets remain stable, with moderating demand for office space and no material increase in supply of directly-competitive office space; that acquisition capitalization rates increase; that the trend toward intensification within our target markets continues; and that the equity and debt markets continue to provide us with access to capital at a reasonable cost to fund our future growth and to refinance our mortgage debt as it matures. Although the forward-looking statements contained in this MD&A are based on what Management believes are reasonable assumptions, there can be no assurance that actual results, operations or performance will be consistent with these statements.

All forward-looking statements in this MD&A are qualified by this forward-looking disclaimer. These statements are made as of November 10, 2008, and, except as required by applicable law, we undertake no obligation to update publicly or revise any such statements to reflect new information or the occurrence of future events or circumstances.

## Business Overview and Strategy

We are 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 and May 14, 2008 (“Declaration”). We are governed by the laws of Ontario. Our units are publicly traded on the Toronto Stock Exchange under the symbol AP.UN. Additional information on us, including our annual information form, is available on SEDAR at [www.sedar.com](http://www.sedar.com).

We are the leading owner and manager of Class I office properties in Canada, with portfolio assets in the urban areas of Toronto, Montréal, Winnipeg, Québec City and Kitchener. Our objectives are to provide stable and growing cash distributions to unitholders and to maximize unitholder value through effective management and accretive portfolio growth.

Class I office properties are created through the adaptive re-use of light industrial structures in urban areas. They typically feature high ceilings, abundant natural light, exposed structural frames, interior brick and hardwood floors. When restored and retrofitted to the standards of our portfolio, Class I buildings can satisfy the needs of the most demanding office and retail tenants. When operated in the coordinated manner of our portfolio, these buildings become a vital part of the urban fabric and contribute meaningfully to a sense of community.

The Class I value proposition includes (i) proximity to central business districts in areas well served by public transportation, (ii) distinctive internal and external environments that assist tenants in attracting, retaining and motivating employees and (iii) significantly lower overall occupancy costs than those that prevail in the central business districts. The value proposition has proven appeal to a diverse base of business tenants, including the full range of service and professional firms, telecommunications and information technology providers, media and film groups and storefront retailers.

### Property Portfolio

We completed our Initial Public Offering (“IPO”) on February 20, 2003. We used the net proceeds of the IPO to acquire a portfolio of 14 predominantly Class I office properties in downtown Toronto with 820,000 square feet of gross leasable area (“GLA”). By the end of 2007, we had acquired another 31 office properties in downtown Toronto, 30 of them Class I office properties, bringing our total GLA in that market to over 2.4 million square feet. We had also acquired seven predominantly Class I office properties in downtown Montréal, seven in downtown Winnipeg and five in Québec City, bringing our total portfolio at the end of 2007 to 64 properties with over 4.7 million square feet of GLA.

We made the following acquisitions in the nine-month period ended September 30, 2008, bringing our portfolio to 75 properties with over 5.5 million square feet of GLA:

Property	Acquired	Office GLA	Retail GLA	Total GLA	Parking Spaces
72 Victoria Street, Kitchener	January 9, 2008	89,875	0	89,875	228
544 King Street West, Toronto*	January 9, 2008	36,000	0	36,000	8
179 John Street, Toronto	March 4, 2008	67,393	0	67,393	14
96 Spadina Avenue, Toronto**	March 4, 2008	85,366	5,849	91,215	0
489 King Street West, Toronto	June 3, 2008	15,621	10,650	26,271	0
495 King Street West, Toronto	June 3, 2008	11,183	0	11,183	26
499 King Street West, Toronto	June 3, 2008	0	8,400	8,400	10
183 Bathurst Street, Toronto	June 3, 2008	24,879	0	24,879	0
204-214 King Street East, Toronto	July 2, 2008	128,970	5,460	134,430	50
70 Richmond Street East, Toronto	July 2, 2008	34,414	0	34,414	0
5505 Saint-Laurent Boulevard, Montréal	August 1, 2008	252,452	2,524	254,976	0
Total		746,153	32,883	779,036	336

\*includes 1-9 Morrison Street, Toronto, with which it is treated as a single Property Under Development

\*\*Property Under Development

We also acquired the second of two parcels of land adjacent and ancillary to 425 Viger Avenue West in Montréal on February 1, 2008, the first having been acquired in late 2007. The two parcels afford the REIT the opportunity of adding up to 60,000 square feet of GLA to 425 Viger Avenue West.

Four Toronto properties (47 and 47A Fraser Avenue, 134 Peter Street, 544 King Street West and 96 Spadina Avenue) and one Montréal property (4450 Saint-Laurent Boulevard) are currently properties under development (“Properties Under Development” or “PUDs”). They are undergoing redevelopment, development or intensification. See “Properties Under Development” below.

### **Property Management**

Our wholly owned subsidiary, Allied Properties Management Limited Partnership, provides property management and related services to us and to third-party property owners on a fee-for-service basis.

### **Sustainability**

We are committed to sustainability, both as it relates to our business and to the physical environment within which we operate. Most of our buildings were created through the adaptive re-use of structures built nearly a century ago. They are recycled buildings, and the recycling has had considerably less impact on the environment than new construction of equivalent GLA would have had. To the extent we undertake new construction through development or intensification, we are committed to obtaining LEED certification. See “*Properties Under Development*” and “*Intensification*” below. LEED certification is a program established by the U.S. Green Building Council for certifying the design, construction and operation of high-performance green buildings. The program has gained wide acceptance in North America and elsewhere.

### **Performance Measures**

We measure the success of our strategies through key financial and operating performance measures.

#### **Financial Measures**

##### **1. Distributions**

We are focused on increasing distributions to our unitholders on a regular and prudent basis. During our first 12 months of operations, we made regular monthly distributions of \$1.10 per unit on an annualized basis. In March of each year from 2004 through to 2008, we increased our monthly distributions as set out in the table below:

	<b>March, 2004</b>	<b>March, 2005</b>	<b>March, 2006</b>	<b>March, 2007</b>	<b>March, 2008</b>
Annualized increase per unit	\$0.04	\$0.04	\$0.04	\$0.04	\$0.06
% increase	3.6%	3.5%	3.4%	3.3%	4.8%
Annualized distribution per unit	\$1.14	\$1.18	\$1.22	\$1.26	\$1.32

##### **2. Distributable Income**

Increasing distributions can be achieved prudently by increasing Distributable Income (“DI”), as defined in the Declaration. See “Distributable Income” below. In the nine-month period ended September 30, 2008, DI per unit (diluted) was \$1.258, up 2.4% from the comparable period in 2007.

##### **3. DI Pay-Out Ratio**

To ensure we retain sufficient cash to meet our capital improvement and leasing objectives, we strive to maintain an appropriate DI pay-out ratio, the ratio of actual distributions to DI in a given period. In the nine-month period ended September 30, 2008, we achieved a DI pay-out ratio of 77.7%.

##### **4. Funds From Operations**

Unlike DI, Funds From Operations (“FFO”) has a standardized definition. See “Funds From Operations” below. In the nine-month period ended September 30, 2008, FFO per unit (diluted) was \$1.266, up 2.4% from the comparable period in 2007.

##### **5. FFO Pay-Out Ratio**

To ensure we retain sufficient cash to meet our capital improvement and leasing objectives, we strive to maintain an appropriate FFO pay-out ratio, the ratio of actual distributions to FFO in a given period. In the nine-month period ended September 30, 2008, we achieved an FFO pay-out ratio of 77.2%.

## 6. Adjusted Funds From Operations

Increasing distributions cannot be achieved prudently without reference to adjusted funds from operations (“AFFO”), as this financial measure takes account of regular maintenance capital expenditures and regular leasing expenditures while ignoring the impact of non-cash revenue. See “Adjusted Funds from Operations” below. In the nine-month period ended September 30, 2008, AFFO per unit (diluted) was \$1.171, up 5.1% from the comparable period in 2007.

## 7. AFFO Pay-Out Ratio

To ensure we retain sufficient cash to meet our capital improvement and leasing objectives, we strive to maintain an appropriate AFFO pay-out ratio, the ratio of actual distributions to AFFO in a given period. In the nine-month period ended September 30, 2008, we achieved an AFFO pay-out ratio of 83.4%.

## 8. Debt Ratio

Gross Book Value (“GBV”) is defined as the book value of the assets shown on our most recent balance sheet plus accumulated depreciation and amortization and an amount equal to the property management internalization expense that we have recorded. A conservative ratio of debt to GBV (“Debt Ratio”) mitigates unitholder risk. At September 30, 2008, our Debt Ratio was 49.7%.

### **Operating Measures**

#### 1. Tenant Retention and Replacement

We place a high value on tenant retention, as the cost of retention is typically lower than the cost of securing new tenancies. If retention is neither possible nor desirable, we strive for high-quality replacement tenants. Leases representing 585,670 square feet of GLA mature in 2008. By September 30, 2008, we had renewed leases representing 320,872 square feet of this GLA and re-leased another 127,907 square feet of this GLA, representing 76.7% of the GLA covered by the maturing leases.

#### 2. Occupancy

We strive to maintain consistently high levels of occupancy. At September 30, 2008, our leased area was 97.3% (not including Properties Under Development). The chart below summarizes the levels of GLA and leased area in our portfolio since the end of 2003:

	Dec. 31, 2003	Dec. 31, 2004	Dec. 31, 2005	Dec. 31, 2006	Dec. 31, 2007	Sep. 30, 2008
GLA (square feet)	984,856	1,636,343	2,321,507	3,415,279	4,761,211	5,236,026
% leased	97.5	99.2	97.0*	96.3*	97.9*	97.3*

\*not including Properties Under Development

#### 3. Same-Asset Net Operating Income

We strive to maintain or increase same-asset net operating income (“NOI”) over time. See “Net Operating Income” below. Same-asset refers to those properties that we owned and operated for the entire period in question and for the same period in the prior year. Ignoring the step-rent revenue and the amortization of the fair value assigned to above-market and below-market rents with respect to acquired properties (the mark-to-market rent adjustment), same-asset NOI was \$36,148 in the nine-month period ended September 30, 2008, up 2.0% from the comparable period in 2007.

#### 4. Leasing Expenditures

We monitor leasing expenditures carefully. 477,389 square feet of the GLA leased in the nine-month period ended September 30, 2008 involved new leases or lease-renewals that commenced in the period. \$2,927 in leasing expenditures related to this space, representing \$6.13 per leased square foot, in-line with the amount per square foot in prior years.

#### 5. Capital Expenditures

We strive to maintain our properties in top physical condition. In the nine-month period ended September 30, 2008, we incurred \$1,025 in regular maintenance capital expenditures, representing \$0.20 per square foot of our portfolio, in-line with the amount per square foot in prior years.

### **Summary**

The following table summarizes the key financial and operating performance measures for the nine-month period ended September 30, 2008, and the comparable period, as well as the change between the two.

	Nine-Month Period 2008	Nine-Month Period 2007	Change	% Change
Period-end distribution level per unit annualized	\$1.32	\$1.26	\$0.06	4.8%
DI per unit (diluted)	\$1.258	\$1.229	\$0.029	2.4%
DI pay-out ratio	77.7%	76.5%	1.2%	
FFO per unit (diluted)	\$1.266	\$1.236	\$0.030	2.4%
FFO pay-out ratio	77.2%	76.0%	1.2%	
AFFO per unit (diluted)	\$1.171	\$1.114	\$0.057	5.1%
AFFO pay-out ratio	83.4%	84.4%	(1.0%)	
Debt Ratio	49.7%	54.2%	(4.5%)	
Renewal/replacement % of leases maturing in year	82.5%	88.8%	(6.3%)	
Period-end leased area (not including PUD)	97.3%	97.9%	(0.6%)	
Same-asset NOI	\$36,148	\$35,426	\$722	2.0%
Leasing expenditures	\$2,927	\$2,463	464	18.8%
Leasing expenditures per leased square foot	\$6.13	\$5.94	0.19	3.2%
Maintenance capital expenditures	\$1,025	\$1,706	(681)	(39.9%)
Maintenance capital expenditures per portfolio square foot	\$0.20	\$0.38	(0.18)	(48.5%)

## Business Environment and Outlook

We operate in five target markets—downtown Toronto, downtown and midtown Montréal, downtown Winnipeg, downtown Québec City and downtown Kitchener. The following is a brief description of our target markets and current outlook:

### ***Downtown Toronto***

This target market includes 13.3 million square feet of office inventory in three sub-markets, Downtown East (2.1 million square feet), Downtown West (9.2 million square feet) and King West (2.0 million square feet). Approximately half of the office inventory in this target market falls within the Class I category. The downtown Toronto office market is stable, with the overall vacancy rate having declined to 3.6% by the end of the third quarter of 2008. The vacancy rate in Downtown West increased marginally to 3.8% and the vacancy rate in the Downtown East and King West sub-markets declined to 3.9% and 10.3%, respectively.<sup>1</sup>

Our assessment of our Toronto target market has traditionally been based on the high-quality data published by Cushman & Wakefield LePage, which divides the downtown Toronto office market into five distinct and clearly delineated sub-markets. In an effort to understand how this target market might evolve over time, we retained Real Estate Search Corporation (“ReSearch”) (i) to identify a larger area that might in time be suitable for us and (ii) to develop an inventory of Class I office space within that larger area. According to ReSearch, the larger area includes approximately 18.5 million square feet of Class I office space and extends from University Avenue as far west as Jane Street (12.4 million square feet) and from Yonge Street as far east as Victoria Park Avenue (6.1 million square feet), in both cases between Lakeshore Boulevard and Eglinton Avenue for the most part.

While we will continue to regard our Toronto target market as consisting of the Downtown East, Downtown West and King West sub-markets, as defined by Cushman Wakefield LePage, we consider ReSearch’s delineation and data as indicative of the extent to which our Toronto target might evolve over time. It is also worthy of note that for the period ending September 30, 2008, ReSearch reports a

<sup>1</sup> Cushman & Wakefield LePage, *Third Quarter 2008 Statistical Summary, Toronto Office Market*.

reduction in the overall vacancy rate to 4.9%, in the Class I office space within the geographic area delineated above (5.8% in the western portion and 3.2% in the eastern portion).

#### ***Downtown and Midtown Montréal***

This target market includes 17.7 million square feet of office inventory in three sub-markets, Downtown East (7.5 million square feet), Old Montréal (7.7 million square feet) and Mile End (2.5 million square feet). Approximately half of the office inventory in this target market falls within the Class I category. The downtown Montréal office is stable, with the overall vacancy rate steady at 5.7% by the end of the third quarter, and the vacancy rate in the Downtown East sub-market having increased to 2.3% and Old Montréal sub-market having declined to 5.3%.<sup>2</sup>

#### ***Downtown Winnipeg***

This target market includes 1.8 million square feet of office inventory, principally in the Exchange District. Most of the office inventory in this target market falls within the Class I category. The downtown Winnipeg office market is stable, with the overall vacancy rate finishing the third quarter of 2008 at 5.7%.<sup>3</sup>

#### ***Downtown Québec City***

This target market includes 1.5 million square feet of office inventory in the St. Roch office node. Most of the office inventory in this target market falls within the Class I category. The Québec City office market is strong and started the year with an overall vacancy rate of 2.9%.<sup>4</sup>

#### ***Downtown Kitchener***

This target market includes approximately 1 million square feet of existing and potential office inventory in the Warehouse District. Much of the office inventory in this target market falls within the Class I office category. The Kitchener office market is stable and started the year with an overall vacancy rate of 8.1%.

#### ***Outlook***

Demand for office space in our target markets was strong in the third quarter. Since then, we have observed indications of a slowdown in demand for office space in Toronto and Montréal.

The supply of office space in our target markets is currently limited, as reflected in the low vacancy rates at the end of the third quarter. However, significant new supply of Class A office space is being created in Downtown Toronto, primarily the Downtown Core sub-market. While we do not expect this space to be directly competitive with our Toronto properties, we do expect it to put upward pressure on office vacancy rates in the Downtown Core in 2010 and beyond. Significant new supply of Class A office space is also being created in Québec City. While we do not expect this space to be directly competitive with our Québec City properties, we do expect it put upward pressure on office vacancy rates in Québec City in 2009 and beyond.

Over the course of 2008, we bolstered our balance sheet through a series of equity and debt financings, bringing our Debt Ratio to 49.7%. We also kept our pay-out ratios relatively low. We believe that our conservative ratios put us in a good position to meet challenges and take advantage of opportunities as we move forward.

Our mortgage maturity schedule is very moderate. We have a \$35,784 in mortgages maturing over the next three years, \$14,938 in 2009 (3.0% of our total mortgage debt), \$5,978 in 2010 (1.2% of our total mortgage debt) and \$14,868 in 2011 (3.0% of our total mortgage debt). We believe this bolsters our financial stability in an uncertain credit environment.

---

<sup>2</sup> Cushman & Wakefield LePage, *Third Quarter 2008 Statistical Summary, Montréal Office Market*.

<sup>3</sup> Cushman & Wakefield LePage, *National Real Estate Market Intelligence, Third Quarter 2008*.

<sup>4</sup> Avison Young, *2007 Annual Review, 2008 Forecast*.

<sup>5</sup> Cushman & Wakefield LePage.

## PART II

### Summary Information and Performance for the Nine-Month Period Ended September 30, 2008

The following sets out summary information and financial results for the nine-month period ended September 30, 2008, and the comparable period and the change between the two.

(In thousands except for per unit and % amounts)	Nine-Month Period 2008	Nine-Month Period 2007	Change	%Change
Revenue from rental properties	96,606	75,688	20,918	27.6%
Rental property operating cost	38,055	29,408	8,647	29.4%
Net rental income	58,551	46,280	12,271	26.5%
Real estate service income	254	330	(76)	(23.0%)
Financing expense				
Interest	18,924	15,908	3,016	19.0%
Amortization - Mortgage premium	(159)	(264)	105	(39.8%)
Amortization – Deferred financing cost	383	247	136	55.1%
Amortization				
Rental properties	11,851	9,349	2,502	26.8%
Deferred leasing cost and tenant improvements	1,725	1,292	433	33.5%
Origination cost and acquired tenant relationships	14,003	13,323	680	5.1%
Acquired contracts and customer relationships	72	72	-	0.0%
Computer and office equipment	190	34	156	458.8%
Income from operations	11,816	6,649	5,167	77.7%
Trust expense	2,600	1,814	786	43.3%
Net income	9,216	4,835	4,381	90.6%
Amortization				
Rental properties	11,851	9,349	2,502	26.8%
Mortgage premium	(159)	(264)	105	(39.8%)
Acquired leases	4,748	4,109	639	15.6%
M-T-M acquired leases	1,865	2,118	(253)	(11.9%)
Acquired tenant relationships	9,255	9,215	40	0.4%
Acquired contracts and customer relationships	72	72	-	0.0%
Step-rent adjustments	(651)	(808)	157	(19.4%)
LTIP and Unit Option Plan expense	366	6	360	6000.0%
DI	36,563	28,632	7,931	27.7%
Weighted average units outstanding (basic)	28,683	22,886	5,797	25.3%
Weighted average units outstanding (diluted)	29,072	23,293	5,779	24.8%
Distributions	28,412	21,897	6,515	29.8%
DI per unit (basic)	\$1.275	\$1.251	\$0.024	1.9%
DI per unit (diluted)	\$1.258	\$1.229	\$0.029	2.4%
DI pay-out ratio	77.7%	76.5%	1.2%	
FFO	36,795	28,799	7,996	27.8%
FFO per unit (basic)	\$1.283	\$1.258	\$0.025	2.0%
FFO per unit (diluted)	\$1.266	\$1.236	\$0.030	2.4%
FFO pay-out ratio	77.2%	76.0%	1.2%	
AFFO	34,057	25,940	8,117	31.3%
AFFO per unit (basic)	\$1.187	\$1.133	\$0.054	4.8%
AFFO per unit (diluted)	\$1.171	\$1.114	\$0.057	5.1%
AFFO pay-out ratio	83.4%	84.4%	(1.0%)	
NOI	59,765	47,590	12,175	25.6%
Same-asset net operating income	36,148	35,426	722	2.0%
Total assets	\$956,344	\$789,876	\$166,468	21.1%
Total debt (excludes premium on assumed debt)	\$527,879	\$464,433	\$63,446	13.7%
Debt to GBV	49.7%	54.2%	(4.5%)	
Total GLA (s.f., excluding PUD)	5,236	4,484	752	16.8%
Leased GLA (s.f., excluding PUD)	5,095	4,391	704	16.0%
Leased GLA (% total GLA)	97.3%	97.9%	(0.6%)	

**Net Income**

Net income for the period was \$9,216, as compared to \$4,835 in the comparable period. Net income per unit (diluted) for the period was \$0.321, as compared to \$0.208 in the comparable period.

DI for the period increased by 27.7% to \$36,563 from \$28,632 for the comparable period. DI per unit (diluted) for the period was \$1.258, as compared to \$1.229 in the comparable period.

**Net Rental Income**

Net rental income for the period increased by 26.5% to \$58,551 from \$46,280 in the comparable period as follows: (i) \$349 due to the increase in same-asset net rental income from properties owned for the entire period and the entire comparable period (which includes the year-over-year change in step-rent adjustments and market to market rent adjustments); and (ii) \$11,922 due to net rental income from properties not owned for the entire period and the entire comparable period.

Of the \$105,269 of net rental income for the years ended December 31, 2006, and December 31, 2007, \$1,382 of operating cost recoveries is in dispute with a tenant. Of the \$58,551 of net rental income for the period, \$777 of operating cost recoveries is in dispute with the same tenant. Based on the advice of legal counsel and an independent firm of chartered accountants, Management is of the view that there is no merit to the tenant's position and is diligently pursuing the matter.

Net rental income per occupied square foot for the period was \$15.02 annualized, as compared to \$14.05 annualized in the comparable period.

**Real Estate Service Income**

The Property Manager provides real estate services to third-party property owners. Real estate service income for the period was \$254, as compared to \$330 in the comparable period.

**Financing Expense**

Financing expense includes interest cost on mortgage debt and other credit facilities and the amortization of the premiums and discounts on assumed mortgages. The amortization of the premiums and discounts on assumed mortgages reduced financing expense by \$159 in the period.

Financing expense for the period increased by 20.5% to \$19,148 from \$15,891 in the comparable period due to the increase in financing expense associated with additional properties acquired in 2007 and 2008.

**Amortization**

We record amortization on our buildings on a straight-line basis over their expected life. Amortization recorded on buildings for the period increased by 26.8% to \$11,851 from \$9,349 in the comparable period.

We record amortization of deferred leasing cost, tenant improvements and the assigned fair value of the origination cost and tenant relationships for in-place leases acquired on acquisition of a rental property on a straight-line basis over the term of the corresponding lease.

**Trust Expense**

Trust expense includes cost not directly attributable to rental property, such as officers' compensation, trustees' fees, professional fees for legal and audit services, trustees' and officers' insurance premiums and general administrative expenses.

Trust expense for the period increased by 43.3% to \$2,600 from \$1,814 in the comparable period as a result of increased salary and occupancy costs. \$360 of the period-over-period increase involved a non-cash expense associated with the issuance of options in December 2007 under our Unit Option Plan.

**Leasing Activity**

Leasing activity as at September 30, 2008, is summarized in the following table:

	GLA	Leased by September 30	% Leased by September 30	Vacant on September 30*
Vacancy on January 1, 2008*	94,711	45,569	48.1%	49,142
Vacancy acquired in the first nine months of 2008	1,600	1,600	100.0%	-
Vacancy arranged in the first nine months of 2008	34,510	22,908	-	11,602
Maturities in the first nine months of 2008	468,270	387,611	82.8%	80,659
Month-to-month maturities in the first nine months of 2008	38,794	38,794	100.0%	-
Maturities in remainder of 2008	117,400	61,168	52.1%	-
<b>Total</b>	<b>755,285</b>	<b>557,650</b>	<b>73.8%</b>	<b>141,403</b>

\*not including Properties Under Development

94,711 square feet of GLA was vacant at the beginning of 2008. By the end of the period, we leased 45,569 square feet of this GLA, leaving 49,142 square feet vacant. We acquired 1,600 square feet of vacant GLA with our 2008 acquisitions, all of which we leased by the end of the period. We also gained access to 34,510 square feet of GLA for repositioning from light-industrial to office use, of which 22,908 square feet were leased by the end of the period.

Leases for 585,670 square feet of GLA mature in 2008, of which 468,270 matured in the period. By the end of the period, we renewed or replaced (i) leases for 387,611 square feet of the GLA that matured in the period, leaving 80,659 square feet vacant and (ii) leases for 61,168 square feet of the GLA maturing in the remainder of 2008.

We also had 38,794 square feet of GLA maturing in connection with month-to-month leases, primarily in our Winnipeg target market. By the end of the period, we renewed leases for all of this GLA.

With respect to the maturing leases renewed or replaced in the period (468,270 square feet of GLA), we achieved rental rates (i) above in-place rental rates with respect to 86% of this GLA and (ii) equal to in-place rental rates with respect to 14% of this GLA.

### **Capital Expenditures**

Our portfolio requires ongoing maintenance capital expenditures and leasing expenditures. Leasing expenditures include the cost of in-suite or base-building improvements made in connection with the leasing of vacant space or the renewal or replacement of tenants occupying space covered by maturing leases, as well as improvement allowances and commissions paid in connection with the leasing of vacant space and the renewal or replacement of tenants occupying space covered by maturing leases.

In the period, we incurred or committed to (i) \$1,025 in regular maintenance capital expenditures (\$0.20 per portfolio square foot) and (ii) \$2,927 in leasing expenditures (\$6.13 per leased square foot) in connection with new leases or lease-renewals that commenced in the period. In addition, we incurred \$6,264 in revenue-enhancing capital and leasing expenditures in connection with space that was significantly reconfigured and retrofitted to accommodate high-value new tenancies and in connection with the completion of redevelopment projects.

\$503 of the salary expense incurred in the period was capitalized in connection with capital improvements to our rental properties and Properties Under Development. This amount was equivalent to approximately 6.1% of the associated development costs.

### **Properties Under Development**

#### 1. Completed

Our completed developments are summarized in the following table:

Completed PUDs	GLA	Complete	Total Cost	FMV	Value Add	Debt	Equity	ROE
<b>Completed and Financed*</b>								
145 Berkeley, Toronto	10,625	1-Nov-06	1,725	2,170	445	1,630	95	77%
257 Adelaide West, Toronto	45,893	1-Jul-07	8,345	11,970	3,625	7,200	1,145	36%
<b>Completed**</b>								
QRC South, Toronto	44,600	1-Apr-07	6,750	10,000	3,250	6,000	750	60%
1500 Notre Dame, Winnipeg	111,400	1-Oct-08	3,920	5,000	1,080	0	3,920	11%
<b>Completed PUDs</b>	<b>212,518</b>		<b>20,740</b>	<b>29,140</b>	<b>8,400</b>	<b>14,830</b>	<b>5,910</b>	

\*Debt financing is in place. 145 Berkeley was appraised in February of 2007 and 257 Adelaide West in June of 2008.

\*\*Debt financing is either pending or not planned. FMV is Management's estimate based on projected NOI.

There can be no assurance with respect to any of the estimates set out in the table above. The four projects referred to in the table were very compact in scope. They should not be taken as indicative of what we can achieve with larger-scale projects. Indeed, we expect lower returns on equity from our current Properties Under Development.

## 2. In Progress

Our developments in progress are summarized in the following table:

<b>PUDs in Progress</b>	<b>Estimated GLA</b>
96 Spadina, Toronto	91,000
47 and 47A Fraser, Toronto*	30,000
4450 Saint-Laurent, Montréal*	22,000
544 King West, Toronto**	150,000
134 Peter, Toronto**	280,000
<b>Total</b>	<b>573,000</b>

\*Conditional on satisfactory pre-leasing

\*\*Conditional on municipal approval and satisfactory pre-leasing

96 Spadina Avenue, Toronto, includes a renovated building with approximately 91,000 square feet of GLA. We have leased 15,000 square feet to a new tenant, bringing the leased area approximately 60%, and are in negotiation with a single prospective tenant for the remainder of the vacant office space. We expect to have this project completed on April 1, 2009.

47 and 47A Fraser Avenue, Toronto, include two un-renovated, satellite buildings at The Castle in Liberty Village with approximately 30,000 square feet of GLA. Our plan is to renovate the two buildings on a customized basis for the ultimate tenants. The leasing effort is underway.

4450 Saint-Laurent Boulevard, Montréal, includes 5,500 square feet of land adjacent to our Class I office building at 4446 Saint Laurent Boulevard. Our plan is to construct on the land an office building with Class I attributes and approximately 22,000 square feet of GLA. The execution of this project, as currently conceived, is contingent upon achieving a level of pre-leasing satisfactory to Management and the Trustees.

544 King Street West, Toronto, includes approximately 19,400 square feet of land with frontage on King and Morrison Streets. Our plan is to construct a LEED-certified, office building with Class I attributes, approximately 150,000 square feet of GLA and approximately 60 on-site parking spaces. The execution of this project is contingent upon obtaining municipal approvals and achieving a level of pre-leasing satisfactory to Management and the Trustees. We have applied to the Committee of Adjustment for the necessary zoning variances and expect a positive result by the end of the year.

134 Peter Street, Toronto, includes approximately 14,500 square feet of surplus land with frontage on Peter and Richmond Streets. Our plan is to restore the existing historic building and to construct a new, LEED-certified, office building with Class I attributes and approximately 220,000 square feet of GLA. The execution of this project is contingent upon obtaining municipal approvals and achieving a level of pre-leasing satisfactory to Management and the Trustees. We have applied to the Committee of Adjustment for the necessary zoning variances and expect a positive result by the end of the year.

Properties Under Development are stated at the lower of cost and net recoverable value. Cost includes the cost of acquisition, other direct cost, realty tax, other operating expense and applicable financing expense during the development period, less the amount of operating revenue during the development period. The principal factors in determining when the development-period ends are (i) the achievement of positive cash flow after applicable interest expense and (ii) the passage of a predetermined period of time. Other criteria may be considered in determining when a development-period ends if warranted by circumstances relating to the relevant Property Under Development.

As at September 30, 2008, the cost of our Properties Under Development was \$43,853, which was equivalent to 4.1% of our GBV.

### ***Intensification***

The buildings on most of our 54 Toronto properties have considerably less GLA than is permissible under the current zoning. This affords us the opportunity to create additional GLA without land cost and with correspondingly high returns on equity. The combined land area of our Toronto properties is approximately 932,000 square feet or 21.4 acres. The GLA of the buildings on these properties is nearly 2.85 million square feet, just over three times coverage of the land area. Based on the current zoning, we could, **in theory**, create approximately 2.85 million square feet of additional GLA. Because of structural limitations and existing lease commitments, the amount of additional GLA that we could, **in practice**, create in the near-term is considerably less. We have evaluated the Toronto portfolio on a property-by-property basis and have estimated that it is practically possible to create between 500,000 and 750,000 square feet of additional GLA in the near term, market conditions permitting.

We have initiated the planning and approval stage of a large-scale intensification of 134 Peter Street, Toronto (discussed above under *Properties Under Development*). We have also initiated the planning stage of a large-scale intensification of 230 Richmond Street East, Toronto. This property includes approximately 18,800 square feet of surplus land with frontage on Richmond and George Streets. Our plan is to construct on the surplus land a LEED-certified office building with Class I attributes, approximately 150,000 square feet of GLA and approximately 180 on-site parking spaces. We can execute this intensification project without interrupting the income stream from the existing building. The execution of this project, as currently conceived, is contingent upon obtaining municipal approvals and achieving a level of pre-leasing satisfactory to Management and the Trustees.

### **Distributable Income**

We define DI as the net income determined in accordance with GAAP adjusted by adding back or deducting as required:

- (i) amortization on rental properties;
- (ii) amortization of the premiums or discounts on assumed mortgages;
- (iii) non-cash rental revenue recorded to recognize rental income rateably over the life of each lease;
- (iv) non-cash compensation expense with respect to the LTIP and Unit Option Plan;
- (v) amortization of values ascribed in a building acquisition to in-place leases and tenant relationships;
- (vi) amortization of values ascribed in a building acquisition to above-market and below-market leases;
- (vii) amortization of values ascribed in the property management internalization to acquired contracts and customer relationships; and
- (viii) property management internalization expense.

DI is a non-GAAP financial measure used by some Canadian real estate investment trusts and should not be considered as an alternative to net income, cash flow from operations or any other measure prescribed under GAAP. DI does not have any standardized meaning prescribed by GAAP. As computed by us, DI may differ from similar computations reported by other Canadian real estate investment trusts and, accordingly, may not be comparable to similar computations reported by such organizations. Management considers DI to be a useful measure of cash available for distributions. The following reconciles cash flow from operations, as presented in the consolidated financial statements, to DI.

(In thousands)	Nine-Month Period ended September 30, 2008	Nine-Month Period ended September 30, 2007
Cash flow from operations	\$36,836	\$6,189
Amortization of deferred leasing cost, tenant improvements	(1,725)	(1,326)
Amortization of deferred financing cost	(383)	(247)
Amortization of computer and office equipment	(184)	(34)
Change in non-cash operating items	2,019	24,050
DI	\$36,563	\$28,632

Distributions for the period ended September 30, 2008, were \$28,412, representing a DI pay-out ratio of 77.7%, as compared to distributions for the nine-month period ended September 30, 2007, of \$21,897, representing a DI pay-out ratio of 76.5%.

### Funds From Operations

FFO is a non-GAAP financial measure used by most Canadian real estate investment trusts and should not be considered as an alternative to net income, cash flow from operations or any other measure prescribed under GAAP. While FFO does not have any standardized meaning prescribed by GAAP, the Real Property Association of Canada ("REALpac") established a standardized definition of FFO in its White Paper on Funds From Operations dated November 30, 2004. Essentially, the REALpac definition is net income with most non-cash expenses added back. Management believes that this definition is followed by most Canadian real estate investment trusts and that it is a useful measure of cash available for distributions. The following reconciles net income, as presented in the consolidated financial statements, with FFO, as calculated in accordance with recommendations of the REALpac definition.

(In thousands)	Nine-Month Period ended September 30, 2008	Nine-Month Period ended September 30, 2007
Net income	\$9,216	\$4,835
Amortization on rental properties	11,851	9,349
Amortization of deferred leasing cost and tenant improvements	1,725	1,292
Amortization of origination cost and acquired tenant relationships	14,003	13,323
FFO	\$36,795	\$28,799

Distributions for the period ended September 30, 2008, represented an FFO pay-out ratio of 77.2%, as compared to distributions for the nine-month period ended September 30, 2007, which represented an FFO pay-out ratio of 76.0%.

### Adjusted Funds From Operations

AFFO is a non-GAAP financial measure used by most Canadian real estate investment trusts and should not be considered as an alternative to net income, cash flow from operations or any other measure prescribed under GAAP. AFFO does not have any standardized meaning prescribed by GAAP. As computed by us, AFFO may differ from similar computations reported by other Canadian real estate investment trusts and, accordingly, may not be comparable to similar computations reported by such organizations. Management considers AFFO to be a useful measure of cash available for distributions. The principal advantage of AFFO is that it starts from the standardized definition of FFO and takes account of maintenance capital expenditures and regular leasing expenditures while ignoring the impact of non-cash revenue. Because maintenance capital expenditures and regular leasing expenditures are not incurred evenly throughout a fiscal year, there can be volatility in AFFO on a quarterly basis. The following reconciles net income, as presented in the consolidated financial statements, with AFFO, calculated in accordance with what Management believes to be industry practice.

(In thousands)	Nine-Month Period ended September 30, 2008	Nine-Month Period ended September 30, 2007
FFO	\$36,795	\$28,799
Step-rent adjustments	(651)	(808)
M-T-M acquired leases	1,865	2,118
Leasing expenditures	(2,927)	(2,463)
Maintenance capital expenditures	(1,025)	(1,706)
AFFO	\$34,057	\$25,940

Distributions for the nine-month period ended September 30, 2008, represented an AFFO pay-out ratio of 83.4%, as compared to distributions for the nine-month period ended September 30, 2007, which represented an AFFO pay-out ratio of 84.4%.

## Net Operating Income

NOI is a non-GAAP financial measure and should not be considered as an alternative to net income, cash flow from operations or any other measure prescribed under GAAP. NOI does not have any standardized meaning prescribed by GAAP. As computed by us, NOI may differ from similar computations reported by other Canadian real estate investment trusts and, accordingly, may not be comparable to similar computations reported by such organizations. Management considers NOI to be a useful measure of performance for rental properties. The following reconciles net rental income, as presented in the consolidated financial statements, to NOI.

(In thousands)	<b>Nine-Month Period ended September 30, 2008</b>	<b>Nine-Month Period ended September 30, 2007</b>
Revenue from rental properties	\$96,606	\$76,688
Rental property operating cost	38,055	29,408
Net rental income	58,551	46,280
M-T-M acquired leases	1,865	2,118
Step-rent adjustments	(651)	(808)
<b>NOI</b>	<b>\$59,765</b>	<b>\$47,590</b>

## PART III

### Financial Condition

We finance our operations through three sources of capital: (i) mortgage debt secured by our rental properties, (ii) secured short-term debt financing with a Canadian chartered bank and (iii) equity. As at September 30, 2008, we had mortgage debt of \$503,218, bank indebtedness of \$24,661 and unitholders' equity of \$390,955.

#### **Unitholders' Equity**

As at September 30, 2008, we had a market capitalization of approximately \$576,936 based on a closing unit price of \$18.54 on the Toronto Stock Exchange. As at September 30, 2007, we had a market capitalization of approximately \$554,171 based on a closing unit price of \$22.07 on the Toronto Stock Exchange.

In the nine-month period ended September 30, 2008, we issued a total of 6,008,735 units for equity contributions of \$125,230. Costs incurred to issue the units were \$5,562. Units were issued as follows: (i) 2,900,000 units at \$20.75 per unit for gross proceeds of \$60,175, pursuant to a bought deal that closed on January 3, 2008; (ii) 2,850,000 units at \$21.25 per unit gross proceeds of \$60,563, pursuant to a bought deal that closed on July 2, 2008; (iii) 216,235 units under our distribution re-investment plan at an average price of \$18.81 per unit for \$4,067 and (iv) 42,500 units at \$10 per unit for \$425 to certain officers who exercised their options under the Unit Option Plan. As of November 10, 2008, we had 31,161,378 units issued and outstanding.

We adopted a Unit Option Plan at the time of our IPO. In May of 2004, we adopted a long-term incentive plan ("LTIP") whereby our trustees and officers ("Participants") may from time to time, at the discretion of the trustees and subject to regulatory approval, subscribe for units at a market price established in accordance with the provisions of the LTIP. The price for the units is payable as to 5% upon issuance and as to the balance ("LTIP Loan") over 10 years with interest on the LTIP Loan at an annual rate established in accordance with the provisions of the LTIP. The units issued pursuant to the LTIP are registered in the name of a Custodian on behalf of the Participants who are the beneficial owners. The units are pledged to us as security for payment of the LTIP Loan, and all distributions paid on the units are forwarded by the Custodian to us and applied first on account of interest on the LTIP Loan and then to reduce the outstanding balance of the LTIP Loan. In May of 2007, we amended the Unit Option Plan and the LTIP to limit the number of units authorized for issuance under the Unit Option Plan, the LTIP or any other equity compensation plan to 5% of the issued and outstanding units from time to time. As of November 10, 2008, we had 710,000 options to purchase 710,000 units outstanding.

#### **Mortgages Payable**

Mortgages payable as at September 30, 2008, consisted of mortgage debt of \$503,218. The following sets out the maturity schedule of our mortgage debt and the weighted average interest rate on the maturing mortgages.

	Periodic Principal Payments	Balance Due at Maturity	Total Principal	% of Total Principal	WA Interest Rate
2008	2,847	277	3,124	0.6%	7.6%
2009	12,839	14,938	27,777	5.5%	6.3%
2010	12,944	5,978	18,922	3.8%	5.3%
2011	13,449	14,868	28,317	5.6%	6.2%
2012	13,658	18,615	32,273	6.4%	6.6%
Thereafter	35,135	357,670	392,805	78.1%	5.5%
Total	90,872	412,346	503,218	100.0%	

Interest rates on the mortgage debt are between 4.94% and 8.10% with a weighted average interest rate of 5.6%. The weighted average term of the mortgage debt is 6.2 years.

Each individual mortgage loan is secured by a mortgage registered on title of a rental property and by security agreements covering assignment of rents and personal property with respect to such property. The mortgage debt provides the holder with recourse to our assets. We attempt to stagger the maturity of

its mortgages and to have mortgages maturing each year to be in a position to upward finance the principal amount of maturing mortgages as needed. Additionally, we attempt to maintain 15 to 20% of our rental properties free from traditional long-term mortgage financing with a view to providing these assets as security for bank credit facilities.

### **Bank Credit Facility**

As of September 30, 2008 we had a \$70,000 revolving credit facility ("Facility") with a Canadian chartered bank bearing interest at bank prime and maturing on August 31, 2010. The credit facility is secured by a combination of mortgage charges and security agreements on certain of our rental properties. In the nine-month period ended September 30, 2008, the average borrowings under the Facility were \$18,329. As at September 30, 2008, the borrowings under the Facility were \$24,661.

### **Liquidity and Commitments**

Net operating income generated from our rental properties is the primary source of liquidity to fund our financing expense, trust expense and distributions to unitholders. The Declaration requires us to declare distributions each year not less than the greater of (i) 75% of our DI or (ii) an amount to ensure that we will not be subject to tax on our income and capital gains. We intend to pay distributions of approximately 75 to 80% of DI.

We expect that increased financing on maturing mortgages will provide sufficient cash flow to fund mortgage repayments. We plan to fund anticipated ongoing commitments, obligations, capital expenditures and leasing expenditures by using retained cash flow from operations and availing ourselves of borrowing capacity under the Facility.

The Facility, new mortgage financing and the access to the public equity markets will provide the necessary capital we require for acquisitions. Our acquisition capacity, meaning our ability to use unutilized borrowing capacity while not exceeding the 60% Debt Ratio, is \$270,000.

As at September 30, 2008, we had future commitments as set out below.

(In thousands)	September 30, 2008
Leasing commissions	\$854
Tenant improvements	817
Building renovations and maintenance capital expenditures	883
Revenue-enhancing capital and leasing expenditure	317
Expenses	243
<b>Total</b>	<b>\$3,114</b>

## PART IV

### Summary Information and Performance for the Three-Months Ended September 30, 2008

The following sets out summary information and financial results for the three-month period ended September 30, 2008, and the comparable quarter and the change between the two.

(In thousands except for per unit and % amounts)	Q3 2008	Q3 2007	Change	%Change
Revenue from rental properties	33,795	27,718	6,077	21.9%
Rental property operating cost	12,776	10,578	2,198	20.8%
Net rental income	21,019	17,140	3,879	22.6%
Real estate service income	95	106	(11)	(10.4%)
Financing expense				
Interest	6,680	6,271	409	6.5%
Amortization - Mortgage premium	(76)	(80)	4	(5.0%)
Amortization – Deferred financing cost	141	60	81	135.0%
Amortization				
Rental properties	4,221	3,758	463	12.3%
Deferred leasing cost and tenant improvements	589	404	185	45.8%
Origination cost and acquired tenant relationships	4,929	5,581	(652)	(11.7%)
Acquired contracts and customer relationships	24	24	-	0.0%
Computer and office equipment	68	11	57	518.2%
Income from operations	4,538	1,217	3,321	272.9%
Trust expense	828	537	291	54.2%
Net income	3,710	680	3,030	445.6%
Amortization				
Rental properties	4,221	3,758	463	12.3%
Mortgage premium	(76)	(80)	4	(5.0%)
Acquired leases	1,647	1,778	(131)	(7.4%)
M-T-M acquired leases	265	1,188	(923)	(77.7%)
Acquired tenant relationships	3,282	3,804	(522)	(13.7%)
Acquired contracts and customer relationships	24	24	-	0.0%
Step-rent adjustments	(244)	(218)	(26)	11.9%
LTIP and Unit Option Plan expense	122	-	122	-
<b>DI</b>	<b>12,951</b>	<b>10,934</b>	<b>2,017</b>	<b>18.4%</b>
Weighted average units outstanding (basic)	30,654	24,722	5,932	24.0%
Weighted average units outstanding (diluted)	31,042	25,132	5,910	23.5%
Distributions	10,218	7,866	2,352	29.9%
DI per unit (basic)	\$0.422	\$0.442	(\$0.020)	(4.5%)
DI per unit (diluted)	\$0.417	\$0.435	(\$0.018)	(4.1%)
DI pay-out ratio	78.9%	71.9%	7.0%	
FFO	13,449	10,423	3,026	29.0%
FFO per unit (basic)	\$0.439	\$0.422	\$0.017	4.0%
FFO per unit (diluted)	\$0.433	\$0.415	\$0.018	4.3%
FFO pay-out ratio	76.0%	75.5%	0.5%	
AFFO	11,600	9,762	1,838	18.8%
AFFO per unit (basic)	\$0.378	\$0.395	(\$0.017)	(4.3%)
AFFO per unit (diluted)	\$0.374	\$0.388	(\$0.014)	(3.6%)
AFFO pay-out ratio	88.1%	80.6%	7.5%	
NOI	21,040	18,110	2,930	16.2%
Same-asset net operating income	17,714	17,295	419	2.4%
Total assets	\$956,344	\$789,876	166,468	21.1%
Total debt (excludes premium on assumed debt)	\$527,879	\$464,633	63,446	13.7%
Debt to GBV	49.7%	54.2%	(4.5%)	
Total GLA (s.f., excluding PUD)	5,236	4,484	752	16.8%
Leased GLA (s.f., excluding PUD)	5,095	4,391	704	16.0%
Leased GLA (% total GLA)	97.3%	97.9%	(0.6%)	

**Net Income**

Net income for the quarter was \$3,710, as compared to \$680 in the comparable quarter. Net income per unit (diluted) for the quarter was \$0.119, as compared to \$0.027 in the comparable quarter.

DI for the quarter increased by 18.4% to \$12,951 from \$10,934 for the comparable quarter. DI per unit (diluted) for the quarter was \$0.417, as compared to \$0.435 in the comparable quarter.

**Net Rental Income**

Net rental income for the quarter increased by 22.6% to \$21,019 from \$17,140 in the comparable quarter as follows: (i) \$243 due to the increase in same-asset net rental income from properties owned for the entire quarter and the entire comparable quarter (which includes the year-over-year change in step-rent adjustments and market to market rent adjustments); and (ii) \$3,636 due to net rental income from properties not owned for the entire quarter and the entire comparable quarter.

Of the \$105,269 of net rental income for the years ended December 31, 2006, and December 31, 2007, \$1,382 of operating cost recoveries is in dispute with a tenant. Of the \$21,019 of net rental income for the quarter, \$261 of operating cost recoveries is in dispute with the same tenant. Based on the advice of legal counsel and an independent firm of chartered accountants, Management is of the view that there is no merit to the tenant's position and is diligently pursuing the matter.

Net rental income per occupied square foot for the quarter was \$16.50 annualized, as compared to \$15.62 annualized in the comparable quarter.

**Real Estate Service Income**

The Property Manager provides real estate services to third-party property owners. Real estate service income for the quarter was \$95, as compared to \$106 in the comparable quarter.

**Financing Expense**

Financing expense includes interest cost on mortgage debt and other credit facilities and the amortization of the premiums and discounts on assumed mortgages. The amortization of the premiums and discounts on assumed mortgages reduced financing expense by \$24 in the quarter.

Financing expense for the quarter increased by 7.9% to \$6,745 from \$6,251 in the comparable quarter due to the increase in financing expense associated with additional properties acquired in 2007 and 2008.

**Amortization**

We record amortization on our buildings on a straight-line basis over their expected life. Amortization recorded on buildings for the quarter increased by 12.3% to \$4,221 from \$3,758 in the comparable quarter.

We record amortization of deferred leasing cost, tenant improvements and the assigned fair value of the origination cost and tenant relationships for in-place leases acquired on acquisition of a rental property on a straight-line basis over the term of the corresponding lease.

**Trust Expense**

Trust expense includes cost not directly attributable to rental property, such as officers' compensation, trustees' fees, professional fees for legal and audit services, trustees' and officers' insurance premiums and general administrative expenses.

Trust expense for the quarter increased by 54.2% to \$828 from \$537 in the comparable quarter as a result of increased salary and occupancy costs. \$122 of the quarter-over-quarter increase involved a non-cash expense associated with the issuance of options in December 2007 under our Unit Option Plan.

## PART V

### Summary Quarterly Information and Performance

The following sets out summary information and financial results for the eight most recently completed fiscal quarters.

(In thousands except for per unit and % amounts)	Q3 2008	Q2 2008	Q1 2008	Q4 2007	Q3 2007	Q2 2007	Q1 2007	Q4 2006
Revenue from rental properties	33,795	30,961	31,850	30,310	27,718	27,424	20,546	17,871
Rental property operating cost	12,776	12,169	13,110	12,369	10,578	10,831	7,999	6,775
Net rental income	21,019	18,792	18,740	17,941	17,140	16,593	12,547	11,096
Real estate service income	95	88	71	69	106	137	87	113
Financing expense	6,745	6,422	5,981	6,523	6,251	5,914	3,726	3,395
Amortization	9,831	9,041	8,969	9,613	9,778	8,615	5,677	5,264
Income from operations	4,538	3,417	3,861	1,874	1,217	2,201	3,231	2,550
Trust expense	828	856	916	899	537	587	690	597
PM internalization expense	-	-	-	-	-	-	-	900
Net income (loss)	3,710	2,561	2,945	975	680	1,614	2,541	1,053
Amortization								
Rental properties	4,221	3,853	3,777	3,677	3,758	3,280	2,311	2,107
Mortgage premium	(76)	(23)	(60)	(63)	(80)	(92)	(92)	(98)
Acquired leases	1,647	1,565	1,536	1,740	1,778	1,531	800	770
M-T-M acquired leases	265	817	783	1,088	1,188	907	23	67
Acquired tenant relationships	3,282	2,929	3,044	3,673	3,804	3,412	1,999	1,904
Acquired contracts and customer relationships	24	24	24	24	24	24	24	24
Step-rent adjustments	(244)	(155)	(252)	(525)	(218)	(465)	(125)	(165)
PM internalization expense	-	-	-	-	-	-	-	900
LTIP and Unit Option Plan expense	122	122	122	36	-	-	6	-
DI	12,951	11,693	11,919	10,626	10,934	10,211	7,487	6,562
Weighted average units (basic)	30,654	27,757	27,616	24,722	24,722	24,087	19,793	18,445
Weighted average units (diluted)	31,042	28,145	28,007	25,132	25,132	24,517	20,176	18,824
Distributions	10,218	9,249	8,945	7,866	7,866	7,922	6,109	5,696
DI per unit (basic)	\$0.422	\$0.421	\$0.432	\$0.430	\$0.442	\$0.424	\$0.378	\$0.356
DI per unit (diluted)	\$0.417	\$0.415	\$0.426	\$0.423	\$0.435	\$0.416	\$0.371	\$0.349
DI pay-out ratio	78.9%	79.1%	75.0%	74.0%	71.9%	77.6%	81.6%	86.8%
FFO	13,449	11,512	11,834	10,551	10,423	10,192	8,184	7,125
FFO per unit (basic)	\$0.439	\$0.415	\$0.429	\$0.427	\$0.422	\$0.423	\$0.413	\$0.386
FFO per unit (diluted)	\$0.433	\$0.409	\$0.423	\$0.420	\$0.415	\$0.416	\$0.406	\$0.379
FFO pay-out ratio	76.0%	80.3%	75.6%	74.6%	75.5%	77.7%	74.6%	79.9%
AFFO	11,600	10,759	11,698	9,383	9,762	8,648	7,530	5,928
AFFO per unit (basic)	\$0.378	\$0.388	\$0.424	\$0.380	\$0.395	\$0.359	\$0.380	\$0.321
AFFO per unit (diluted)	\$0.374	\$0.382	\$0.418	\$0.373	\$0.388	\$0.353	\$0.373	\$0.315
AFFO pay-out ratio	88.1%	86.0%	76.5%	83.8%	80.6%	91.6%	81.1%	96.1%
NOI	21,040	19,454	19,271	18,505	18,110	17,035	12,445	10,998
Net income per unit (basic)	\$0.121	\$0.092	\$0.107	\$0.039	\$0.028	\$0.067	\$0.128	\$0.057
Net income per unit (diluted)	\$0.119	\$0.091	\$0.105	\$0.039	\$0.027	\$0.066	\$0.126	\$0.056
Total assets	956,344	884,321	857,166	808,627	789,876	771,353	532,302	502,906
Total debt	527,879	517,997	485,371	490,924	464,633	443,334	295,776	263,464
Debt Ratio	49.7%	52.7%	51.3%	55.2%	54.2%	53.3%	50.7%	48.20%
Total GLA (excluding PUD)	5,236	4,812	4,742	4,571	4,484	4,446	3,409	3,321
Leased GLA (excluding PUD)	5,095	4,684	4,625	4,476	4,391	4,295	3,272	3,197
Leased Area (%GLA)	97.3%	97.3%	97.6%	97.9%	97.9%	96.6%	96.0%	96.3%

## PART VI

### Critical Accounting Estimates

The significant accounting policies used in preparing our consolidated financial statements are described in Note 3 to those statements. The following is a discussion of Management's estimates that are most important to the presentation of our results of operations and financial condition and are most subjective as a result of matters that are inherently uncertain.

#### ***Fair Value of Assumed Mortgages Payable and Fair Value of Mortgages Payable***

Most of our mortgage indebtedness was assumed in conjunction with rental property acquisitions. GAAP requires 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. Market rates for debt are based on the yield of Canadian government bonds with similar maturity dates plus a credit spread based on Management's experience in obtaining financing and the current market conditions.

#### ***Impairment of Assets***

We are required to write down to fair value any long-life assets that are determined to have been permanently impaired. Our long-life assets consist of rental properties. Our policy is to assess any potential impairment by making a comparison of the current and projected operating cash flow of a rental property over its remaining useful life, on an un-discounted basis, to the carrying amount of the rental property. If such carrying amount was in excess of the projected operating cash flow of the rental property, impairment in value would be recognized to adjust the carrying amount to its estimated fair market value. Current operating cash flows are based on leases in place and projected operating cash flows are based on Management's estimates of future rental rates. Prior to acquiring a rental property, we commission an appraisal and conduct due-diligence to satisfy itself that the acquisition price is representative of fair market value.

#### ***Amortization***

A significant portion of the purchase price of rental properties is allocated to buildings. The amortization recorded on buildings is based on the straight-line basis over their expected useful life. The allocation of purchase price to buildings and the estimated useful life are based on Management's estimates and, if these estimates prove incorrect, the amortization will not be appropriately recorded.

#### ***Mark-to-Market Rent Adjustment, Cité Multimédia***

We completed the acquisition of Cité Multimédia on April 18, 2007, with an effective date of April 1, 2007. At the time of acquisition, based on data compiled by an independent real estate appraiser, Management estimated that the average in-place rental rates for the tenants at Cité Multimédia exceeded current market rental rates by approximately 9%. Accordingly, our financial statements for the three-month period ended September 30, 2008, recognize a \$843 net mark-to-market rent adjustment in respect of Cité Multimédia. Our net income was affected by this mark-to-market rent adjustment. Our DI and AFFO were not affected, as we add non-cash items back in calculating DI and AFFO. Our FFO was affected, as we do not add mark-to-market rent adjustments back in calculating FFO.

#### ***Future Changes in Accounting Policies***

The Canadian Institute of Chartered Accountants has confirmed that the adoption of International Financial Reporting Standards ("IFRS") will be required for interim and annual financial statements related to fiscal years beginning on or after January 1, 2011. Comparative IFRS information for the previous fiscal years will also need to be reported. These new standards will be effective for the REIT in the first quarter of 2011. We are reviewing the new standards to determine the potential impact on our consolidated financial statements.

## PART VII

### Related Party Transactions

Allied Canadian Development Corporation (“ACDC”) is a company controlled by the President and Chief Executive Officer of the REIT and in which the Executive Vice President of the REIT has an interest. At the time of our IPO, a subsidiary of ACDC leased 29,102 square feet of office space from us pursuant to a lease expiring on September 30, 2010. Effective July 1, 2005, we entered into a direct lease of this space with Loblaws Properties Limited for a term ending October 31, 2010, on the condition that the original indemnity of ACDC protecting us from any revenue shortfall (on a cash basis) from the original lease remain in full force and effect.

We have an option agreement (“Option Agreement”) with ACDC, pursuant to which it must offer to sell to us at fair market value all developed or redeveloped office properties upon substantial completion. Seven of the properties in our portfolio were acquired pursuant to the Option Agreement. ACDC has no properties under development or redevelopment at this time. While the Option Agreement permits it to engage in development and redevelopment activity on an ongoing basis, ACDC is not currently pursuing office development or redevelopment opportunities and does not expect to do so in the foreseeable future.

## PART VIII

### Risk and Uncertainties

There are certain risk factors inherent in the investment and ownership of real estate. Real estate investments are capital intensive, and success from real estate investments depends upon 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.

Our portfolio is focused on a particular asset class in five metropolitan real estate markets in Canada. This focus enables Management to capitalize on certain economies of scale and competitive advantages that would not otherwise be available.

#### **Financing and Interest Rate Risk**

We are 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 our success. In order to minimize risk associated with debt financing, we strive to re-finance maturing loans with long-term fixed-rate debt and to stagger the maturities over time.

Interest rates on our mortgage debt are between 4.94% and 8.10% with a weighted average interest rate of 5.6%. The weighted average term of our mortgage debt is 6.2 years. As at September 30, 2008, the borrowings under the Facility were \$24,661.

#### **Credit Risk**

We are subject to credit risk. Credit risk arises from the possibility that tenants may not be able to fulfill their lease obligations. We strive to mitigate this risk by maintaining a diversified tenant- mix and limiting exposure to any single tenant.

The following sets out our tenant-mix on the basis of percentage of rental revenue for the nine-month period ended September 30, 2008.

<b>Category</b>	<b>% of Rental Revenue Nine-Month Period ended September 30, 2008</b>
Business service and professional	32.1%
Telecommunications and information technology	25.1%
Retail (head office and storefront)	14.7%
Media and entertainment	12.6%
Financial services	6.8%
Government	1.7%
Other	7.0%

The following sets out the percentage of rental revenue from our top-10 tenants by rental revenue for the nine-month period ended September 30, 2008.

<b>Tenant</b>	<b>% of Rental Revenue Nine-Month Period ended September 30, 2008</b>
CGI	6.0%
Desjardins	4.0%
Cossette Communications	2.6%
SAP Labs	2.0%
Motorola	1.7%
MTS Allstream	1.5%
Indigo Books & Music	1.4%
Compuware	1.4%
Publicis Toronto	1.4%
St. Joseph Media	1.3%

#### **Lease Roll-Over Risk**

We are subject to lease roll-over risk. Lease roll-over risk arises from the possibility that we may experience difficulty renewing or replacing tenants occupying space covered by leases that mature. We

strive to stagger our lease maturity schedule so that we are not faced with a disproportionately large level of lease maturity in a given year.

97.3% of the GLA in our portfolio was leased as at September 30, 2008 (not including Properties Under Development). The following sets out the total GLA of the leases that mature during the period from January 1, 2008, to December 31, 2012, assuming tenants do not exercise renewal options, the percentage of total GLA represented by the maturing leases and the weighted average net rental rate on the maturing leases.

<b>Year Ended</b>	<b>Square Feet</b>	<b>% of Total GLA</b>	<b>WA Rental Rate</b>
December 31, 2008	585,670	11.2%	-
December 31, 2009	551,144	10.5%	\$14.04
December 31, 2010	1,107,301	21.2%	\$16.05
December 31, 2011	767,712	14.7%	\$16.36
December 31, 2012	726,595	13.9%	\$17.05

We have renewed or replaced leases for 448,779 square feet of the GLA covered by maturing leases in 2008. The weighted average term to maturity of our leases is four years.

The following sets out lease maturity information for each of our five target markets, with our Toronto and Kitchener target markets being combined.

1. Toronto and Kitchener

<b>Year Ended</b>	<b>Square Feet</b>	<b>% of Total GLA</b>	<b>WA Rental Rate</b>
December 31, 2009	359,583	6.9%	\$16.72
December 31, 2010	386,770	7.4%	\$15.85
December 31, 2011	368,759	7.0%	\$16.45
December 31, 2012	386,147	7.4%	\$19.69

2. Montréal

<b>Year Ended</b>	<b>Square Feet</b>	<b>% of Total GLA</b>	<b>WA Rental Rate</b>
December 31, 2009	128,970	2.5%	\$10.25
December 31, 2010	648,683	12.4%	\$16.83
December 31, 2011	370,347	7.1%	\$17.09
December 31, 2012	304,450	5.8%	\$14.37

3. Winnipeg

<b>Year Ended</b>	<b>Square Feet</b>	<b>% of Total GLA</b>	<b>WA Rental Rate</b>
December 31, 2009	51,876	1.0%	\$5.36
December 31, 2010	35,088	0.7%	\$7.21
December 31, 2011	24,044	0.5%	\$6.45
December 31, 2012	10,925	0.2%	\$6.62

4. Québec City

<b>Year Ended</b>	<b>Square Feet</b>	<b>% of Total GLA</b>	<b>WA Rental Rate</b>
December 31, 2009	10,715	0.2%	\$11.98
December 31, 2010	36,760	0.7%	\$11.44
December 31, 2011	4,562	0.1%	\$12.84
December 31, 2012	25,073	0.5%	\$13.35

**Environmental Risk**

As an owner of real property, we are subject to various federal, provincial and municipal laws relating to environmental matters. Such laws provide that we could be liable for the costs of removal of certain hazardous substances and remediation of certain hazardous locations. The failure to remove or remediate such substances or locations, if any, could adversely affect our ability to sell such real estate or to borrow using such real estate as collateral and could potentially also result in claims against us. We are not aware of any material non-compliance with environmental laws at any of the properties in our portfolio. We are also not aware of any pending or threatened investigations or actions by environmental regulatory authorities in connection with any of the properties in our portfolio or any pending or threatened claims relating to environmental conditions at the properties in our portfolio.

***Development Risk***

As an owner of Properties Under Development, we are subject to development risks, such as construction delays, cost over-runs and the failure of tenants to take occupancy and pay rent in accordance with lease arrangements. In connection with all Properties Under Development, we incur development costs prior to (and in anticipation of) achieving a stabilized level of rental revenue. In the case of the development of ancillary or surplus land, these risks are managed by not commencing construction until a satisfactory level of pre-leasing is achieved. Overall, these risks are managed by ensuring that Properties Under Development do not represent a large component of our GBV. As at September 30, 2008, the cost of Properties Under Development was equivalent to 4.1% of our GBV.

***Taxation Risk***

On June 22, 2007, rules changing the manner in which trusts are taxed were proclaimed into force. Trusts that meet the REIT exemption are not subject to these rules. The determination as to whether we qualify for the REIT exemption in a particular taxation year can only be made with certainty at the end of that taxation year. While there can be no assurance in this regard, due to uncertainty surrounding the interpretation of the relevant provisions of the REIT exemption, we expect that we will qualify for the REIT exemption in 2008 and beyond.

## **PART IX**

### **Subsequent Events**

On October 15, 2008, we completed the first mortgage financing of 5505 Saint-Laurent Boulevard in Montréal in the aggregate principal amount of \$19,500, for a term of three and a half years, bearing interest at 5.26% and payable in blended monthly instalments of principal and interest based on a 25-year amortization.

On October 23, 2008, we completed the first mortgage financing of 451-481 St. Catherine Street West in Montréal in the aggregate principal amount of \$4,000 for a term of 10 years, bearing interest at 6.14% and payable in blended monthly instalments of principal and interest based on a 25-year amortization.

## **PART X**

### **Disclosure Controls and Internal Controls**

Management maintains appropriate information systems, procedures and controls to ensure that information that is publicly disclosed is complete, reliable and timely. The Chief Executive Officer and Chief Financial Officer evaluated the design of the REIT's disclosure controls and procedures (as defined in Multilateral Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings) as at September 30, 2008 and have concluded that such disclosure controls and procedures were appropriately designed.

Management is responsible for establishing adequate internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. The Chief Executive Officer and Chief Financial Officer assessed the design of the REIT's internal controls over financial reporting (as defined in Multilateral Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings) as at September 30, 2008 and, based on that assessment, determined that the REIT's internal controls over financial reporting were appropriately designed.

There has been no change in internal controls over financial reporting in the third quarter of 2008 that has materially affected, or is reasonably likely to materially affect, the REIT's internal controls over financial reporting.

## PART XI

### Property Table

September 30, 2008 Properties	Office GLA	Retail GLA	Total GLA	% Total GLA	Office Vacant	Retail Vacant	Total Leased	Leased %
555 College	40,913	19,145	60,058		-	-	60,058	100.0%
905 King W	103,105	9,094	112,199		-	-	112,199	100.0%
The Castle	106,393	34,323	140,716		-	-	140,716	100.0%
<b>King West</b>	<b>250,411</b>	<b>62,562</b>	<b>312,973</b>	<b>5.98%</b>	-	-	<b>312,973</b>	<b>100.0%</b>
141 Bathurst (+ land)	10,521	-	10,521		-	-	10,521	100.0%
183 Bathurst	24,879	-	24,879		-	-	24,879	100.0%
420 Wellington W	33,813	3,137	36,950		-	-	36,950	100.0%
425 Adelaide W	74,927	4,104	79,031		8,835	-	70,196	88.8%
425-439 King W	75,333	17,274	92,607		-	3,397	89,210	96.3%
441-443 King W	6,820	3,065	9,885		-	-	9,885	100.0%
445-455 King W	27,640	23,048	50,688		-	-	50,688	100.0%
468 King W	65,027	-	65,027		-	-	65,027	100.0%
469 King W	62,596	11,250	73,846		-	-	73,846	100.0%
489 King W	15,621	10,650	26,271		-	-	26,271	100.0%
495 King W	11,183	-	11,183		-	-	11,183	100.0%
499 King W	-	8,400	8,400		-	-	8,400	100.0%
500-522 King W	94,892	33,513	128,405		-	14,102	114,303	89.0%
579 Richmond W	29,043	-	29,043		940	-	28,103	96.8%
602-606 King W	38,559	24,320	62,879		-	-	62,879	100.0%
662 King W	30,774	2,126	32,900		-	-	32,900	100.0%
King-Brant Parking								
<b>King West Central</b>	<b>601,628</b>	<b>140,887</b>	<b>742,515</b>	<b>14.18%</b>	<b>9,775</b>	<b>17,499</b>	<b>715,241</b>	<b>96.3%</b>
116 Simcoe	14,953	-	14,953		-	-	14,953	100.0%
179 John St	67,393	-	67,393		-	-	67,393	100.0%
185 Spadina	55,814	-	55,814		-	-	55,814	100.0%
200 Adelaide W	28,024	-	28,024		-	-	28,024	100.0%
208-210 Adelaide W	12,422	-	12,422		-	-	12,422	100.0%
217-225 Richmond W	35,393	21,444	56,837		-	-	56,837	100.0%
257 Adelaide W	46,253	-	46,253		-	-	46,253	100.0%
312 Adelaide W	63,693	8,102	71,795		9,099	2,350	60,346	84.1%
331-333 Adelaide W	21,112	3,210	24,322		-	-	24,322	100.0%
358-360 Adelaide W	54,250	-	54,250		8,948	-	45,302	83.5%
364 Richmond W	22,018	17,300	39,318		-	-	39,318	100.0%
388 King W	32,529	11,765	44,294		-	-	44,294	100.0%
82 Peter	38,623	8,287	46,910		-	-	46,910	100.0%
99 Spadina	39,267	12,613	51,880		-	-	51,880	100.0%
<b>Entertainment District</b>	<b>531,744</b>	<b>82,721</b>	<b>614,465</b>	<b>11.74%</b>	<b>18,047</b>	<b>2,350</b>	<b>594,068</b>	<b>96.7%</b>
67 Richmond W	44,785	5,794	50,579		-	-	50,579	100.0%
193 Yonge	32,966	16,318	49,284		-	-	49,284	100.0%
<b>Downtown</b>	<b>77,751</b>	<b>22,112</b>	<b>99,863</b>	<b>1.91%</b>	-	-	<b>99,863</b>	<b>100.0%</b>
106 Front E	24,388	10,109	34,497		-	-	34,497	100.0%
35-39 Front E	34,858	17,850	52,708		-	-	52,708	100.0%
36-40 Wellington E	12,630	11,550	24,180		-	-	24,180	100.0%
41-45 Front E	20,024	19,811	39,835		-	-	39,835	100.0%
45-55 Colborne	27,834	12,526	40,360		1,000	-	39,360	97.5%
50 Wellington E	21,937	11,049	32,986		-	-	32,986	100.0%
<b>St. Lawrence Market</b>	<b>141,671</b>	<b>82,895</b>	<b>224,566</b>	<b>4.29%</b>	<b>1,000</b>	-	<b>223,566</b>	<b>99.6%</b>
145 Berkeley	7,946	2,687	10,633		-	-	10,633	100.0%
230 Richmond E	73,667	-	73,667		-	-	73,667	100.0%
489 Queen E	32,905	-	32,905		7,663	-	25,242	76.7%
Dominion Square	42,923	68,936	111,859		-	-	111,859	100.0%
QRC South	40,143	-	40,143		4,571	-	35,572	88.6%
Queen Richmond Centre	174,727	48,728	223,455		-	-	223,455	100.0%
70 Richmond St E	34,414	-	34,414		-	-	34,414	100.0%
204-214 King St E	128,970	5,460	134,430		-	-	134,430	100.0%
<b>Queen Richmond</b>	<b>535,695</b>	<b>125,811</b>	<b>661,506</b>	<b>12.63%</b>	<b>12,234</b>	-	<b>649,272</b>	<b>98.2%</b>
<b>Total Toronto</b>	<b>2,138,900</b>	<b>516,988</b>	<b>2,655,888</b>	<b>50.72%</b>	<b>41,056</b>	<b>19,849</b>	<b>2,594,983</b>	<b>97.7%</b>

September 30, 2008	Office	Retail	Total	% Total	Office	Retail	Total	Leased %
Properties	GLA	GLA	GLA	GLA	Vacant	Vacant	Leased	
3575 Saint-Laurent	169,398	16,548	185,946		13,110	-	172,836	92.9%
400 Atlantic	86,034	-	86,034		6,727	-	79,307	92.2%
425 Viger W (+ land)	205,193	820	206,013		-	-	206,013	100.0%
4446 Saint-Laurent	74,961	7,667	82,628		8,019	-	74,609	90.3%
5505 Saint Laurent Blvd	252,452	2,524	254,976		-	-	254,976	100.0%
451-481 Saint Catherine	20,830	9,634	30,464		-	-	30,464	100.0%
6300 Avenue du Parc	204,735	10,450	215,185		21,437	-	193,748	90.0%
Cite Multimedia	958,056	5,118	963,174		-	-	963,174	100.0%
<b>Total Montreal</b>	<b>1,971,659</b>	<b>52,761</b>	<b>2,024,420</b>	<b>38.66%</b>	<b>49,293</b>	<b>-</b>	<b>1,975,127</b>	<b>97.6%</b>
115 Bannatyne	34,591	4,029	38,620		-	-	38,620	100.0%
138 Portage East	45,655	-	45,655		15,662	-	29,993	65.7%
165 Garry	9,000	5,800	14,800		-	-	14,800	100.0%
250 McDermot	34,946	10,040	44,986		3,844	-	41,142	91.5%
309 Hargrave	19,070	1,400	20,470		3,709	-	16,761	81.9%
50-70 Arthur	104,803	13,390	118,193		6,190	-	112,003	94.8%
<b>Total Winnipeg</b>	<b>248,065</b>	<b>34,659</b>	<b>282,724</b>	<b>5.40%</b>	<b>29,405</b>	<b>-</b>	<b>253,319</b>	<b>89.6%</b>
390 Charest	66,771	6,348	73,119		-	-	73,119	100.0%
410 Charest	-	24,937	24,937		-	1,300	23,637	94.8%
420 Charest	43,551	13,285	56,836		500	-	56,336	99.1%
622 Saint Joseph	3,620	3,300	6,920		-	-	6,920	100.0%
633 Saint Joseph	15,558	6,000	21,558		-	-	21,558	100.0%
<b>Total Quebec City</b>	<b>129,500</b>	<b>53,870</b>	<b>183,370</b>	<b>3.50%</b>	<b>500</b>	<b>1,300</b>	<b>181,570</b>	<b>99.0%</b>
72 Victoria	89,634	-	89,634		-	-	89,634	100.0%
<b>Total Kitchener-Waterloo</b>	<b>89,634</b>	<b>-</b>	<b>89,634</b>	<b>1.71%</b>	<b>-</b>	<b>-</b>	<b>89,634</b>	<b>100.0%</b>
<b>Total Rental Portfolio</b>	<b>4,577,758</b>	<b>658,278</b>	<b>5,236,036</b>	<b>100.00%</b>	<b>120,254</b>	<b>21,149</b>	<b>5,094,633</b>	<b>97.3%</b>
47 and 47A Fraser, Toronto	29,737	-	29,737					
96 Spadina, Toronto	85,366	5,849	91,215					
134 Peter, Toronto	29,865	19,804	49,669					
544 King, Toronto	36,000							
1500 Notre Dame, Winnipeg	111,400	-	111,400					
Adjacent Land, Montreal	-	-	-					
<b>Total PUD</b>	<b>292,368</b>	<b>25,653</b>	<b>282,021</b>					