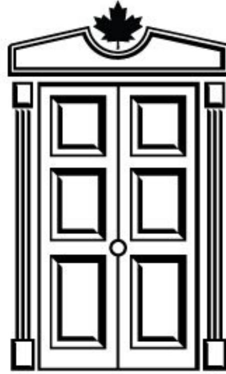

CAPREIT

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

THREE AND SIX MONTHS ENDED JUNE 30, 2011

AUGUST 9, 2011

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SECTION I

FORWARD-LOOKING DISCLAIMER

The following Management's Discussion and Analysis ("MD&A") of Canadian Apartment Properties Real Estate Investment Trust's ("CAPREIT") results of operations and financial condition for the three and six months ended June 30, 2011 and 2010 should be read in conjunction with CAPREIT's audited consolidated annual financial statements for the year ended December 31, 2010, contained in CAPREIT's 2010 Annual Report.

Certain statements contained, or contained in documents incorporated by reference, in this MD&A constitute forward-looking information within the meaning of securities laws. Forward-looking information may relate to CAPREIT's future outlook and anticipated events or results and may include statements regarding the future financial position, business strategy, budgets, litigation, projected costs, capital investments, financial results, taxes, plans and objectives of or involving CAPREIT. Particularly, statements regarding CAPREIT's future results, performance, achievements, prospects, costs, opportunities and financial outlook, including those relating to acquisition and capital investment strategy and the real estate industry generally, are forward-looking statements. In some cases, forward-looking information can be identified by terms such as "may", "will", "should", "expect", "plan", "anticipate", "believe", "intend", "estimate", "predict", "potential", "continue" or the negative thereof, or other similar expressions concerning matters that are not historical facts. Forward-looking statements are based on certain factors and assumptions regarding expected growth, results of operations, performance and business prospects and opportunities. In addition, certain specific assumptions were made in preparing forward-looking information, including: that the Canadian economy will generally experience growth, however, with specific geographic areas of weakness including Alberta; that inflation will remain low; that interest rates will rise modestly in the medium term; that Canada Mortgage and Housing Corporation ("CMHC") mortgage insurance will continue to be available and that a sufficient number of lenders will participate in the CMHC-insured mortgage program to ensure competitive rates; that conditions within the real estate market, including competition for acquisitions, will become more favourable; that the Canadian capital markets will continue to provide CAPREIT with access to equity and/or debt at reasonable rates; that vacancy rates for CAPREIT properties will be consistent with historical norms; that rental rates will grow at levels similar to the rate of inflation on renewal; that rental rates on turnovers will remain stable; that CAPREIT will effectively manage price pressures relating to its energy usage; and, with respect to CAPREIT's financial outlook regarding capital investments, assumptions respecting projected costs of construction and materials, availability of trades, the cost and availability of financing, CAPREIT's investment priorities, the properties in which investments will be made, the composition of the property portfolio and the projected return on investment in respect of specific capital investments. Although the forward-looking statements contained in this MD&A are based on assumptions Management believes are reasonable as of the date hereof, there can be no assurance actual results will be consistent with these forward-looking statements; they may prove to be incorrect. Forward-looking statements necessarily involve known and unknown risks and uncertainties, many of which are beyond CAPREIT's control, that may cause CAPREIT or the industry's actual results, performance, achievements, prospects and opportunities in future periods to differ materially from those expressed or implied by such forward-looking statements. These risks and uncertainties include, among other things, risks related to: investment properties, real property ownership, leasehold interests, co-ownerships, investment restrictions, operating risk, energy costs and hedging, environmental matters, insurance, capital investments, indebtedness, interest rate hedging, taxation, harmonization of federal goods and services tax and provincial sales tax, government regulations, controls over financial accounting, International Financial Reporting Standards ("IFRS"), legal and regulatory concerns, the nature of units of CAPREIT ("Trust Units") and of CAPREIT's subsidiary, CAPREIT Limited Partnership ("Exchangeable Units") (collectively, the "Units"), unitholder liability, liquidity and price fluctuation of Units, dilution, distributions, participation in CAPREIT's distribution reinvestment plan, potential conflicts of interest, dependence on key personnel, general economic conditions, competition for residents, competition for real property investments, continued growth and risks related to acquisitions. There can be no assurance that the expectations of CAPREIT's Management will prove to be correct. For a detailed discussion of risk factors, refer to the Risks and Uncertainties section and CAPREIT's latest Annual Information Form. Subject to applicable law, CAPREIT does not undertake any obligation to publicly update or revise any forward-looking information.

NON-IFRS FINANCIAL MEASURES

CAPREIT prepares and releases unaudited consolidated interim financial statements and audited consolidated annual financial statements in accordance with IFRS. In this MD&A, and in earnings releases and investor conference calls, as a complement to results provided in accordance with IFRS, CAPREIT also discloses and discusses certain financial measures not in accordance with IFRS, including Net Operating Income ("NOI"), Net Rental Revenue Run-Rate, Funds From Operations ("FFO"), Normalized Funds From Operations ("NFFO") and Adjusted Funds From Operations ("AFFO"), and applicable per Unit amounts and payout ratios. These non-IFRS measures are further defined and discussed in Section III, under Non-IFRS Financial Measures. Since NOI, Net Rental Revenue Run-Rate, FFO, NFFO and AFFO are not measures determined under IFRS, they may not be comparable to similarly titled measures reported by other issuers. CAPREIT has presented such non-IFRS measures because Management believes these non-IFRS measures are relevant measures of the ability of CAPREIT to earn and distribute cash returns to investors in the Units ("Unitholders") and to evaluate CAPREIT's performance. A reconciliation of non-IFRS measures is provided in Section III, under Non-IFRS Financial Measures. These non-IFRS measures should not be construed as alternatives to net income (loss) or cash flow from operating activities determined in accordance with IFRS as indicators of CAPREIT's performance.

ADOPTION OF IFRS

In 2008, the Canadian Accounting Standards Board ("AcSB") confirmed that Canadian publicly listed entities will have to adopt IFRS effective for fiscal years beginning on or after January 1, 2011. Accordingly, the accompanying unaudited consolidated interim financial statements for the three and six months ended June 30, 2011 have been prepared in accordance with International Accounting Standard ("IAS") 34, Interim Financial Statements, and IFRS 1, First-Time Adoption of IFRS, with effect from January 1, 2010, the date of transition. Results for periods prior to January 1, 2010 have not been restated. For the purposes of this MD&A, the term "Canadian GAAP" refers to Canadian generally accepted accounting principles before the adoption of IFRS.

Notes 4 and 5 of the accompanying unaudited consolidated interim financial statements for the three and six months ended June 30, 2011 contain a detailed description of CAPREIT's conversion to IFRS, including a reconciliation of financial statements prepared under Canadian GAAP to those prepared under IFRS for the six months ended June 30, 2010 as well as for the year ended December 31, 2010. Additional details of the transition are disclosed in the Adoption of IFRS section of this MD&A, which also includes line-by-line reconciliations of the consolidated balance sheets at January 1, 2010 and December 31, 2010 as reported under Canadian GAAP to those reported under IFRS. Similar reconciliations of the consolidated statements of income as reported under Canadian GAAP to those reported under IFRS for the three months ended June 30, 2010 and for the year ended December 31, 2010 are also disclosed. Reconciliations of previously reported non-IFRS financial measures to the revised figures as presently reported is provided in the Non-IFRS Financial Measures section of the MD&A.

OVERVIEW

CAPREIT is an unincorporated open-ended real estate investment trust created by a declaration of trust (the "Declaration of Trust") dated February 3, 1997 under the laws of the Province of Ontario, as most recently amended and restated on November 13, 2009. CAPREIT owns interests in multi-unit residential rental properties, including apartments, townhomes and manufactured home communities located in and near major urban centres across Canada. At June 30, 2011, CAPREIT had ownership interests in a portfolio that included 28,456 residential suites (CAPREIT's share – 27,301 suites), diversified by geographic location and asset type, and two Ontario manufactured home communities ("MHC") comprising 1,325 land lease sites. As at June 30, 2011, CAPREIT had 779 employees (734 employees as at December 31, 2010).

The tables below summarize acquisitions and dispositions of properties for the six months ended June 30, 2011 and for the year ended December 31, 2010:

Acquisitions Completed and Pending During the Six Months Ended June 30, 2011 and subsequent thereto

($ Thousands)	Demographic Sector	Suite or Site Count	Region	Total Acquisition Costs	Mortgage Funding	Interest Rate	Mortgage Maturity Date
January 31, 2011	Mid-tier	83	Burlington	$ 9,116	$ 6,818	4.26%	March 1, 2021
April 15, 2011	Mixed (1)	495	Greater Vancouver Region	74,556	49,369	4.38%	May 1, 2021
May 31, 2011	Mid-tier	625	Greater Toronto Area ("GTA")	81,172	45,306	3.67%	July 1, 2021
June 30, 2011	Mid-tier	224	Toronto	32,068	18,586	3.67%	July 1, 2021
Subsequent to June 30, 2011: (2)							
July 31, 2011	Luxury	811	Greater Montréal Region	70,000 (3)	47,050	(4)	(4)
August 10, 2011	Affordable	229	Toronto	16,800 (3)	12,926	3.88%	March 1, 2022
Total		2,467		$ 283,712	$ 180,055		

(1) The acquisition comprised three mid-tier and two luxury properties.
(2) See the Subsequent Events section.
(3) Excludes certain transaction costs.
(4) This property has assumed five mortgages with maturity dates between December 1, 2016 to December 1, 2026 with a weighted average stated rate of 4.80%.

Acquisitions Completed During the Year Ended December 31, 2010

($ Thousands)	Demographic Sector	Suite or Site Count	Region(s)	Total Acquisition Costs	Mortgage Funding	Interest Rate	Mortgage Maturity Date
February 22, 2010	MHC	14	Bowmanville and Grand Bend	$ 912	$ – (1)	(1)	(1)
April 12, 2010	Luxury	162	Vancouver	38,425	22,652 (2)	4.59%	April 5, 2017
May 14, 2010	Luxury	199	GTA	31,653	22,165	3.37%	June 1, 2015
July 29, 2010 (3)	Mixed	307	Victoria	47,194	26,366 (4)	(4)	(4)
December 20, 2010	MHC	9	Bowmanville and Grand Bend	488	– (1)	(1)	(1)
Total		691		$ 118,672	$ 71,183		

(1) The acquisition of MHC land lease sites is funded from CAPREIT's land lease facility (see Liquidity and Financial Condition section).
(2) The mortgage was assumed from the vendor at acquisition.
(3) The acquisition comprised two affordable, four mid-tier and two luxury properties.
(4) Funding for the acquisition comprised of new mortgage financing of $25,580 at 3.67% maturing December 1, 2020 and an assumed mortgage of $786 at a stated rate of 4.73% maturing on February 1, 2016.

Dispositions Completed During the Six Months Ended June 30, 2011

($ Thousands)	Demographic Sector	Suite Count	Region	Sale Price	Cash Proceeds	Mortgage Discharged
March 29, 2011	Affordable	143	Hamilton	$ 5,975	$ 3,609	$ 2,117

Dispositions Completed During the Year Ended December 31, 2010

($ Thousands)	Demographic Sector	Suite Count	Region(s)	Sale Price	Cash Proceeds	Mortgage(s) Repaid
June 3, 2010	Mid-tier	88	Montréal	$ 3,000	$ 2,831	$ 1,926
June 9, 2010	Affordable	250	Montréal	11,750	10,568	4,014
July 5, 2010	Affordable	146	London	7,600	7,116	5,650
July 29, 2010	Mid-tier	570	Mississauga and Kitchener	45,900	42,232	20,106
November 24, 2010	Mid-tier	56	GTA	6,430	6,042	–
Total		1,110		$ 74,680	$ 68,789	$ 31,696

OBJECTIVES

CAPREIT's objectives are to:

- Provide Unitholders with long-term, stable and predictable monthly cash distributions;
- Grow Normalized Funds From Operations, sustainable distributions and Unit value through the active management of its properties, accretive acquisitions and strong financial management; and
- Reinvest capital within the property portfolio in order to ensure life safety of residents and maximize earnings and cash flow potential.

BUSINESS STRATEGY

To meet its objectives, CAPREIT has established the following strategies:

Customer Service – CAPREIT recognizes that it is in a "people business" and strives to be recognized as the Landlord of Choice in all its chosen markets by providing its residents with safe, secure and comfortable homes. It takes a hands-on approach to managing its properties, stressing open and frequent communications to ensure residents' needs are met efficiently and effectively and thereby maintaining a high occupancy level. Numerous initiatives such as newsletters, special events, resident committees and other initiatives help to build a true sense of community at its properties. CAPREIT's strong sales and marketing team continues to execute innovative and highly effective strategies to help attract and retain residents and adapt to changing conditions in specific markets. In addition, CAPREIT's lease administration system improves control of rent-setting by suite, increasing resident service and enhancing the overall profile of its resident base.

Cost Controls – While ensuring the needs of its residents are met, CAPREIT also carefully monitors operating costs to ensure it is delivering services to residents both efficiently and cost effectively. CAPREIT strives to capture potential economies of scale and cost synergies arising from past growth. CAPREIT's enterprise-wide procurement system streamlines and centralizes purchasing controls and procedures and is generating reduced costs through national master sourcing contracts, improved pricing and enhanced operating efficiencies.

Capital Investments – CAPREIT strives to acquire properties at prices significantly below their current replacement costs, and is committed to improving its operating performance by incurring appropriate capital investments in order to maintain the productive capacity of its property portfolio and to sustain the portfolio's rental income-generating potential over its useful life. CAPREIT continues to invest in environment-friendly and energy-saving initiatives that improve overall net operating income. In 2009, CAPREIT completed a review of its portfolio and developed a five-year capital investment plan that continues to be monitored and re-examined. This plan will allow Management to ensure capital investments extend the useful economic life of CAPREIT's properties, enhance life safety and improve the long-term cash flow potential of its portfolio.

Portfolio Growth – CAPREIT will grow its portfolio over the long term through accretive acquisitions that meet its strategic criteria and, where possible, enhance geographic diversification while capturing economies of scale and cost synergies, thereby increasing net operating income. As a component of this growth strategy, CAPREIT will monitor its portfolio and, from time to time, identify certain non-core properties for divestiture. The funds from these divestitures will be used to acquire additional strategic assets better suited to CAPREIT's portfolio composition and property management objectives or to pay down existing debt. Management believes the continued realization and reinvestment of capital is a fundamental component of its growth strategy and demonstrates the success of CAPREIT's capital investment programs and its ability to maximize and manage the earnings and cash flow potential of its property portfolio.

Financial Management – CAPREIT takes a conservative approach and strives to manage its exposure to interest rate volatility by proactively managing its mortgage debt portfolio to fix and, where possible, reduce average interest rates, effectively manage the average term to maturity and stagger maturity dates. In addition, CAPREIT strives to maintain a conservative overall liquidity position and achieve a balance in its overall capital resources requirements between debt and equity.

KEY PERFORMANCE INDICATORS

To assist Management and investors in monitoring and evaluating CAPREIT's achievement of its objectives, CAPREIT has defined a number of key operating and performance indicators ("KPIs") to measure the success of its operating and financial strategies:

Occupancy – Management strives, through a focused, hands-on approach to its business, to achieve occupancies that are in line with, or higher than, market conditions in each of the geographic regions in which CAPREIT operates while enhancing the overall qualitative profile of its resident base.

Average Monthly Rents – Through its active property management strategies, the lease administration system and proactive capital investment programs, CAPREIT strives to achieve the highest possible average monthly rents in accordance with local market conditions.

NOI – As a measure of its operating performance, CAPREIT currently strives to achieve an annual net operating income margin that is in the range of 55% to 57% of operating revenues.

FFO and *NFFO* – CAPREIT is focused on achieving steady increases in these metrics. Management believes these measures are indicative of CAPREIT's operating performance and the sustainability of its distributions.

Payout Ratio – To help ensure it retains sufficient cash to meet its capital investment objectives, CAPREIT has historically targeted a long-term annual payout ratio of between 85% and 90% of NFFO.

Portfolio Growth – Management's objective is to pursue strategic acquisitions of between 1,500 and 2,000 suites on an annual basis, subject to market conditions and available financing, which meet its strategic objectives, serve to accretively increase NFFO and continue to further diversify the portfolio by geography and by sector.

Financing – CAPREIT takes a very proactive approach with its mortgage portfolio, striving to manage interest expense volatility risk by achieving the lowest possible average interest rates while mitigating refinancing risk by prudently managing the portfolio's average term to maturity and staggering the maturity dates. For this purpose, CAPREIT strives to ensure its overall leverage ratios and interest and debt service coverage ratios are maintained at a sustainable level. In addition, CAPREIT focuses on maintaining capital adequacy by complying with investment and debt restrictions in its Declaration of Trust and its financial covenants in its credit agreement comprising an acquisition and operating facility ("Acquisition and Operating Facility") and a land lease facility ("Land Lease Facility") (collectively, the "Credit Facilities", as described under Liquidity and Capital Resources in Section IV).

PERFORMANCE MEASURES

The following table presents an overview of certain key IFRS and non-IFRS financial measures and operational results of CAPREIT for the three and six months ended June 30, 2011 and 2010. Management believes that these measures are useful in assessing CAPREIT's performance vis-à-vis its objectives, business strategy and KPIs. Throughout the periods, monthly cash distributions declared to Unitholders remained at $0.09 per Unit.

	Three Months Ended June 30		Six Months Ended June 30	
	2011	**2010**	**2011**	**2010**
Portfolio Performance				
Overall Portfolio Occupancy [1]			**98.4%**	98.0%
Overall Portfolio Average Monthly Rents [1]			**$ 982**	$ 958
Operating Revenues (000s)	**$ 88,235**	$ 84,755	**$ 174,567**	$ 168,273
NOI (000s)	**$ 51,991**	$ 50,199	**$ 98,555**	$ 93,842
NOI Margin	**58.9%**	59.2%	**56.5%**	55.8%
Operating Performance [2]				
FFO Per Unit – Basic	**$ 0.354**	$ 0.373	**$ 0.650**	$ 0.600
NFFO Per Unit – Basic	**$ 0.357**	$ 0.383	**$ 0.659**	$ 0.685
Weighted Average Number of Units - Basic (000s)	**75,143**	66,585	**74,994**	66,504
Cash Distributions Per Unit	**$ 0.270**	$ 0.270	**$ 0.540**	$ 0.540
FFO Payout Ratio	**78.9%**	75.2%	**85.9%**	93.6%
NFFO Payout Ratio	**78.1%**	73.3%	**84.7%**	82.0%
Liquidity and Leverage				
Total Debt to Gross Book Value [1]			**54.32%**	56.93%
Total Debt to Gross Historical Cost [1],[3]			**61.32%**	63.84%
Weighted Average Mortgage Interest Rate [1]			**4.66%**	4.97%
Weighted Average Mortgage Term (years) [1]			**5.3**	4.7
Debt Service Coverage (times) [4]			**1.34**	–
Interest Coverage (times) [4]			**2.12**	–
Available Liquidity – Acquisition and Operating Facility (000s) [1]			**$ 112,636**	$ 83,108
Other				
Number of Suites and Sites Acquired	**1,344**	361	**1,427**	375
Number of Suites Disposed [1]	**–**	–	**143**	–
Closing Price of Trust Units [5]			**$ 19.34**	$ 14.98
Market Capitalization ($ millions)			**$ 1,504**	$ 1,037

(1) As at June 30.
(2) NOI, FFO and NFFO are not defined by IFRS, do not have standard meanings and may not be comparable with other industries or companies (see Non-IFRS Financial Measures).
(3) Based on the historical cost of investment properties.
(4) Based on the trailing four quarters ended June 30, 2011. Prior year comparative ratios have not been restated under IFRS and are therefore not presented. Ratios calculated under Canadian GAAP are available in the MD&A issued for periods prior to 2011.
(5) Defined as the closing price of the Units on the last trading date of the period times the number of Units outstanding on that date (see discussion of Unitholders' Equity under the Liquidity and Financial Condition section).

PROPERTY PORTFOLIO

Types of Property Interests

CAPREIT's investments in its property portfolio reflect different forms of property interests, including:

Fee Simple Interests – Apartments and Townhomes – The majority of CAPREIT's investment in its property portfolio is in the form of fee simple, representing freehold ownership of the properties subject only to typical encumbrances such as mortgages.

Operating Leasehold Interests – CAPREIT owns leasehold interests in 15 properties located in the Greater Toronto Area. The leases mature between 2033 and 2037. While separate lease arrangements exist for each property, the general structure is common across all leases: each lease is for a 35-year term and the rent for the entire lease term was fully paid at the time the leasehold interest was acquired. Each lease also provides CAPREIT with a purchase option exercisable between the 26th and 35th year of the lease term. In the case of one of the properties, the purchase option entitles CAPREIT to acquire a prepaid operating leasehold interest in the property maturing in 2072 (see Portfolio of Operating Leasehold Interests in CAPREIT's 2010 Annual Report for additional information).

Land Leasehold Interests – CAPREIT owns leasehold interests in two land parcels in Alberta and one land parcel in British Columbia. CAPREIT acquired a residential building on each of the three land parcels and pays ground rent on an annual basis for its use of the land. These land leases mature in 2045, 2068 and 2070. CAPREIT does not have the unilateral right to acquire the land or extend the lease term at the maturity of the respective leases (see Portfolio of Land Leasehold Interests in CAPREIT's 2010 Annual Report for additional information).

Fee Simple Interests – MHC Land Lease Sites – CAPREIT has fee simple interests in two MHCs whereby CAPREIT owns sites which it rents to residents under long-term leases of approximately 20 years.

Portfolio by Type of Property Interest

As at June 30,	**2011**	**%**	**2010**	**%**
Fee Simple Interests – Apartments and Townhomes	**23,742**	**79.7**	22,923	79.2
Operating Leasehold Interests	**3,815**	**12.9**	3,815	13.2
Land Leasehold Interests	**899**	**3.0**	899	3.1
Total Residential Suites	**28,456**	**95.6**	27,637	95.5
Fee Simple Interests – MHC Land Lease Sites	**1,325**	**4.4**	1,316	4.5
Total Residential Suites and MHC Land Lease Sites	**29,781**	**100.0**	28,953	100.0

Portfolio Diversification

CAPREIT's property portfolio continues to be diversified by geography and balanced among asset types and demographic sectors. Management's long-term goal is to further enhance the geographic diversification and the defensive nature of its portfolio through acquisitions.

In the fourth quarter of 2010, Management revised the demographic sector classification of certain properties. For the year ended December 31, 2010, the classification of six properties comprising 1,925 suites located in Ontario were reclassified from affordable to mid-tier and two properties comprising 354 suites located in Québec and Ontario were reclassified from mid-tier to luxury. These reclassifications reflect the increases in average monthly rents and the improvements in the quality of the properties and tenant bases resulting from property capital investments completed in 2010 and in prior years.

Portfolio by Demographic Sector

As at June 30,	2011	%	2010 [1]	%
Affordable	**1,214**	**4.1**	3,388	11.7
Mid-tier	**16,770**	**56.3**	14,623	50.5
Luxury	**10,472**	**35.2**	9,626	33.3
Total Residential Suites	**28,456**	**95.6**	27,637	95.5
MHC Land Lease Sites	**1,325**	**4.4**	1,316	4.5
Total Residential Suites and MHC Land Lease Sites	**29,781**	**100.0**	28,953	100.0

(1) Suite count not restated for the change in demographic sector classifications effected in the fourth quarter of 2010 (see Portfolio Diversification).

Portfolio by Geography

As at June 30,	2011	%	2010	%
Ontario				
Greater Toronto Area	**15,033**	**50.5**	14,377	49.7
Ottawa	**1,527**	**5.1**	1,527	5.3
London / Kitchener / Waterloo	**903**	**3.0**	1,482	5.1
Other Ontario	**1,410**	**4.8**	1,470	5.1
Ontario Residential Suites	**18,873**	**63.4**	18,856	65.2
MHC Land Lease Sites	**1,325**	**4.4**	1,316	4.5
	20,198	**67.8**	20,172	69.7
Québec				
Greater Montréal Region	**2,207**	**7.4**	2,207	7.6
Québec City	**1,909**	**6.4**	1,909	6.6
	4,116	**13.8**	4,116	14.2
British Columbia				
Greater Vancouver Region	**1,948**	**6.6**	1,453	5.0
Victoria	**815**	**2.7**	508	1.8
	2,763	**9.3**	1,961	6.8
Alberta				
Edmonton	**310**	**1.0**	310	1.1
Calgary	**1,070**	**3.6**	1,070	3.7
	1,380	**4.6**	1,380	4.8
Nova Scotia				
Halifax	**1,083**	**3.7**	1,083	3.7
Saskatchewan				
Saskatoon	**133**	**0.4**	133	0.4
Regina	**108**	**0.4**	108	0.4
	241	**0.8**	241	0.8
Total Residential Suites	**28,456**	**95.6**	27,637	95.5
Total Residential Suites and MHC Land Lease Sites	**29,781**	**100.0**	28,953	100.0

Over the last few years, CAPREIT has focused on diversifying its geographic portfolio outside of Ontario by increasing its presence in markets with higher growth potential, while maintaining a strong presence in Ontario's residential market, as Management continues to believe strategic investments in Ontario will benefit Unitholders in the long run. CAPREIT continues to look for investment opportunities that meet its investment criteria and that, where possible, will further its diversification strategy. The geographic diversification of its portfolio also enables CAPREIT to mitigate the risks arising from potential downturns in specific markets.

Through the first six months of 2011, CAPREIT has acquired a total of 12 mid-tier and two luxury properties in Ontario and British Columbia comprising a total of 1,427 suites. Historically, CAPREIT has targeted acquiring between 1,500

and 2,000 suites on an annual basis and for 2011, including the pending acquisitions announced on July 21, 2011, Management will have exceeded its growth objectives for 2011 with a total of 2,467 suites acquired. During the year ended December 31, 2010, CAPREIT acquired a total of 691 residential suites and sites across Canada.

INVESTMENT PROPERTIES

Investment property is defined as property held to earn rental income or for capital appreciation or both. Investment property is recognized initially at cost. Subsequent to initial recognition, all investment property is measured using the fair value model whereby changes in fair value are recognized for each reporting period in the consolidated statement of income.

Management values each investment property based on the most probable price that a property should be sold for in a competitive and open market as of the specified date under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus. This does not contemplate the potential for general declines in real estate markets or sale of assets by CAPREIT under financial or other hardship. Each investment property has been valued on a highest and best use basis, but specifically does not include any portfolio premium that may be associated with economies of scale from owning a large portfolio or the consolidation value of having compiled a large portfolio of properties over a long period of time, many through individual property acquisitions.

Market assumptions applied for valuation purposes do not necessarily reflect the specific history or experience related to CAPREIT, and in many cases, the stabilized cash flows or NOI used for appraisal purposes may not reflect the results ultimately realized during future periods.

The fair value of investment properties is established by a qualified, independent appraiser annually. Each quarter, CAPREIT utilizes market assumptions for capitalization and discount rates provided by the external appraiser to determine the fair value of the investment properties for interim reporting purposes. To the extent that the externally provided capitalization rates or results of operations change from one reporting period to the next, the fair value of the investment properties would increase or decrease accordingly.

Investment properties have been valued using the following methods and key assumptions:

i) *Fee Simple and MHC Land Lease Sites*: CAPREIT utilizes the Direct Income Capitalization ("DC") method. Under this method, capitalization rates are applied to a stabilized NOI representing market-based NOI assumptions (property revenue less property operating expenses). The most significant assumption is the capitalization rate for each specific property.

ii) *Operating Leasehold Interests*: CAPREIT utilizes the Discounted Cash Flow ("DCF") method. Under this method, discount rates are applied to the forecasted cash flows reflecting market-based leasing assumptions for that specific property as well as assumptions as to renewal and new leasing activity. The most significant assumption is the discount rate applied over the initial term of the lease. In the case of one property, a separate liability is recognized for contractual air rights payments and the discount rate used to determine the fair value of the investment property is adjusted for uncertainty relating to the renegotiation of the air rights lease at the end of its term.

iii) *Options to purchase the related operating leases*: CAPREIT utilizes the DC method at the reversion date to estimate the future value, which is then discounted to a present value. Under this method, the stabilized income is adjusted to a projected NOI as at the end of the operating lease term and the capitalization rate is adjusted to a "Reversionary Capitalization Rate" reflecting the incremental risk associated with future uncertainty. The value of the option is then determined based on the difference between the estimated fair value of the property at such date and the option buyout price, discounted back to present value using a risk-adjusted discount rate (the "Option Discount Rate").

iv) *Land Leasehold Interests*: CAPREIT utilizes the DCF method for properties that are subject to land or air rights leases. Under this method, discount rates are applied to the forecasted cash flows reflecting market-based leasing assumptions for that specific property as well as assumptions as to renewal and new leasing activity. The most significant assumption is the discount rate applied over the initial term of the lease. A separate liability is recognized for contractual land lease payments and discount rates are adjusted for uncertainty relating to the renegotiation of land leases at the end of their terms.

For a discussion of risk factors associated with the valuation of investment properties, refer to the Risks and Uncertainties section.

The following table summarizes the changes in the investment properties portfolio during the periods:

As at June 30, ($ Thousands)		**2011**	2010
Balance, Beginning of Period (1)		**$ 3,106,548**	$ 2,951,647
Add:	Acquisitions	**196,912**	70,913
	Property Capital Investments (2)	**37,163**	27,525
	Capitalized Leasing Costs (3)	**70**	47
Less:	Dispositions	**(5,732)**	(13,482)
	Realized Loss on Disposition	**(95)**	(2,489)
	Unrealized Gain (Loss) on Remeasurement at Fair Value	**25,331**	(15,164)
Investment Properties at Gross Fair Market Value, End of Period		**$ 3,360,197**	$ 3,018,997
Less:	Liabilities Associated with Investment Properties (1)	**(56,568)**	(50,662)
Investment Properties Net of Associated Liabilities, End of Period		**$ 3,303,629**	$ 2,968,335

(1) Includes one Operating Leasehold Interest subject to a contractual air rights lease and three Land Leasehold Interests subject to land leases that have been reflected at gross fair market value and then have been reduced by the liabilities associated with the investment properties. These liabilities represent the present value of the related land leases or air rights payments.
(2) See Property Capital Investments section.
(3) Capitalized leasing costs comprise the changes in direct leasing costs, tenant inducements, and straight-line adjustments for the six months ended June 30.

CAPREIT utilizes market assumptions for capitalization and discount rates provided by the external appraiser to determine the fair value of the investment properties. For the six months ended June 30, 2011 and 2010, the unrealized gain or loss on remeasurement of investment properties is primarily the result of declining capitalization rates offset by certain capital investments not having an immediate effect on stabilized NOI and thus not being reflected in the fair value of the investment properties at the measurement date.

A summary of the fair values of CAPREIT's investment properties and changes, along with key market assumptions, is presented below:

Investment Properties By Geography

As at	**Dec 2010**	Change Due To Change In			**Jun 2011**	**2010**	**2011**
($ millions)(1)	Fair Value	Rates (1)	Stabilized NOI	Acquisitions / Dispositions	**Fair Value**	Rates (1)	**Rates (1)**
Greater Toronto Area	$ 1,612	$ 51	$ –	$ 99	**$ 1,762**	6.33%	**5.90%**
Other Ontario	300	9	–	3	**312**	6.26%	**5.98%**
Québec	343	7	–	–	**350**	6.39%	**6.20%**
British Columbia	368	4	–	73	**445**	4.96%	**4.88%**
Alberta	233	2	–	–	**235**	6.00%	**5.76%**
Nova Scotia	139	4	–	–	**143**	6.72%	**6.50%**
Saskatchewan	22	–	–	–	**22**	6.87%	**6.85%**
MHC Land Lease Sites	89	2	–	–	**91**	6.25%	**6.13%**
Gross Value of Investment Properties	$ 3,106	$ 79	$ –	$ 175	**$ 3,360**		
Liabilities Associated with Investment Properties	(56)	–	–	–	**(56)**	7.83%(2)	**7.80%(2)**
Investment Properties, Net of Associated Liabilities	$ 3,050	$ 79	$ –	$ 175	**$ 3,304**		

(1) Weighted average capitalization rates.
(2) Weighted average discount rates.
See note 9 to the accompanying unaudited consolidated interim financial statements for further valuation assumption details including discount rates as at at June 30, 2011 for Land and Operating Leasehold interests.

As at June 30, 2011, a 25 basis point change in capitalization rates would have the following approximate effect on the fair value of investment properties:

As at June 30, 2011

($ Thousands)	Change (basis points) (1)	Estimated Increase (Decrease) in Fair Value of Investment Properties
Weighted Average Capitalization Rate	+25	$ (132,000)
Weighted Average Capitalization Rate	-25	$ 144,000

(1) For Operating Leasehold Interests and Land Leasehold Interests, CAPREIT applies discount rates to determine the fair value of these properties. However, for the purposes of the above sensitivity analysis, CAPREIT has utilized the implied capitalization rates for Operating Leasehold Interests and Land Leasehold Interests to determine the impact on fair value of the total portfolio.

SECTION II

AVERAGE MONTHLY RENTS AND OCCUPANCY

Portfolio Average Monthly Rents ("AMR") and Occupancy By Demographic Sector

	Total Portfolio				Properties Owned Prior to June 30, 2010				Properties Acquired Since June 30, 2010	
As at June 30,	**2011**		**2010**		**2011**		**2010**		**2011**	
	AMR	**Occ. %**	**AMR**	**Occ. %**	**AMR**	**Occ. %**	**AMR**	**Occ. %**	**AMR**	**Occ. %**
Affordable	**$ 790**	**97.9**	$ 741	96.9	**$ 794**	**98.0**	$ 741	96.9	$ 755	95.0
Mid-tier	**$ 949**	**98.6**	$ 928	98.2	**$ 951**	**98.7**	$ 928	98.2	$ 920	98.1
Luxury	**$ 1,100**	**97.9**	$ 1,081	97.5	**$ 1,107**	**97.9**	$ 1,081	97.5	$ 972	96.3
Average Residential Suites	**$ 999**	**98.3**	$ 975	97.9	**$ 1,004**	**98.4**	$ 975	97.9	$ 929	97.5
Average MHC Land Lease Sites	**$ 631**	**100.0**	$ 612	99.8	**$ 631**	**100.0**	$ 612	99.8	$ 585	100.0
Overall Portfolio Average	**$ 982**	**98.4**	$ 958	98.0	**$ 986**	**98.5**	$ 958	98.0	$ 927	97.5

Restated for the effects of changes in demographic sector classifications effected in the fourth quarter of 2010 (see Portfolio Diversification).

AMR is defined as actual residential rents, net of vacancies, divided by the total number of suites in the property and does not include revenues from parking, laundry or other sources. Average monthly rents increased in all sectors of the residential suite portfolio, resulting in a significant 2.5% increase in overall average monthly rent as at June 30, 2011 to $999, compared to $975 in the prior year period. The increases in average monthly rents and occupancy levels were due to a combination of ongoing successful sales and marketing strategies and continued strength in the residential rental sector in the majority of CAPREIT's regional markets as well as the impact of disposition of certain affordable properties during the last 12 months.

Average monthly rents for the residential suite portfolio properties owned prior to June 30, 2010 also increased at June 30, 2011 to $1,004 from $975 at June 30, 2010, with gains of up to 7.2% in some sectors of the portfolio. Occupancy also increased in most sectors of the residential suite portfolio, resulting in nearly full occupancy at 98.4% compared to 97.9% in the prior year. For the MHC land lease portfolio, average monthly rents rose to $631 as at June 30, 2011, compared to $612 as at June 30, 2010, while occupancy remained full.

The tables below summarize the changes in the average monthly rent due to suite turnovers and lease renewals compared to the prior year period.

Suite Turnovers and Lease Renewals

For the Three Months Ended June 30,	**2011**			**2010**		
	Change in AMR		**% Turnovers**	**Change in AMR**		**% Turnovers**
	$	**%**	**& Renewals(1)**	**$**	**%**	**& Renewals(1)**
Suite Turnovers	**9.2**	**0.9**	**8.1**	2.8	0.3	9.0
Lease Renewals	**14.3**	**1.4**	**17.3**	22.7	2.3	18.3
Weighted Average of Turnovers & Renewals	**12.7**	**1.2**		16.1	1.6	

For the Six Months Ended June 30,	**2011**			**2010**		
	Change in AMR		**% Turnovers**	**Change in AMR**		**% Turnovers**
	$	**%**	**& Renewals(1)**	**$**	**%**	**& Renewals(1)**
Suite Turnovers	**8.5**	**0.9**	**13.8**	3.2	0.3	14.7
Lease Renewals	**13.7**	**1.3**	**29.4**	21.8	2.2	31.2
Weighted Average of Turnovers & Renewals	**12.0**	**1.2**		15.9	1.6	

(1) Percentage of suites turned over or renewed during the period based on the total number of residential suites (excluding co-ownerships) held at the end of the period.

Suite turnovers in the residential suite portfolio (excluding co-ownerships) during the three months ended June 30, 2011 resulted in average monthly rent increasing by approximately $9 or 0.9% per suite compared to an increase of approximately $3 or 0.3% in the same period last year. For the first six months of 2011, suite turnovers also resulted in average monthly rent increasing by approximately $9 or 0.9% compared to an increase of $3 or 0.3% in the same period last year. Although the change in average monthly rents from suite turnovers improved significantly from the same periods last year, the effect of continued rent discounting in the Alberta market by approximately $13 or 1.3% per suite for the first six months of 2011 (and $3 or 0.3% per suite in the second quarter) continues to have an adverse impact. Excluding the impact of the Alberta portfolio, residential suite turnovers would have instead resulted in average monthly rent increases of $11 or 1.1% for the six months ended June 30, 2011 (and $10 or 1% per suite in the second quarter).

Pursuant to Management's focus on increasing overall portfolio rents, for the three months ended June 30, 2011 average monthly rents on lease renewals increased by approximately $14 or 1.4% compared to $23 or 2.3% for the same period last year. For the six months ended June 30, 2011, average monthly rents increased by $14 or 1.3% compared to $22 or 2.2% for the same period last year. The lower rate of growth in average monthly rents on lease renewals during the current year periods are due primarily to the Ontario guideline increase of 0.7% for 2011, which compares unfavourably to the permitted Ontario guideline increase of 2.1% in 2010 (see the discussion of Risk Factors in CAPREIT's latest Annual Information Form). In July 2011, the Ontario Ministry of Municipal Affairs and Housing announced the rent control guideline for 2012 will be 3.1%. Management is actively pursuing applications for above guideline increases to raise average monthly rents on lease renewals (see discussion in the Future Outlook section).

Portfolio Average Monthly Rents and Occupancy By Geography

As at June 30,		**2011**			**2010**	
		AMR	**Occ. %**		**AMR**	**Occ. %**
Ontario						
Greater Toronto Area	**$**	**1,096**	**99.0**	$	1,082	98.4
Ottawa		**876**	**99.9**		860	99.9
London / Kitchener / Waterloo		**850**	**96.0**		818	97.8
Other Ontario		**1,010**	**98.7**		935	97.2
	$	**1,067**	**98.9**	$	1,038	98.4
Québec						
Greater Montréal Region	**$**	**688**	**96.3**	$	683	97.3
Québec City		**809**	**97.9**		794	98.6
	$	**744**	**97.1**	$	734	97.9
British Columbia						
Greater Vancouver Region	**$**	**980**	**97.5**	$	984	98.2
Victoria		**853**	**97.7**		767	95.7
	$	**942**	**97.6**	$	928	97.6
Alberta						
Edmonton	**$**	**902**	**87.4**	$	887	82.6
Calgary		**1,028**	**98.2**		989	95.9
	$	**1,000**	**95.8**	$	966	92.9
Nova Scotia						
Halifax	**$**	**1,039**	**97.3**	$	993	96.2
Saskatchewan						
Saskatoon	**$**	**825**	**98.5**	$	757	94.7
Regina		**890**	**100.0**		854	99.1
	$	**854**	**99.2**	$	801	96.7
Total Residential Suites	**$**	**999**	**98.3**	$	975	97.9
MHC Land Lease Sites	**$**	**631**	**100.0**	$	612	99.8
Total Residential Suites and MHC Land Lease Sites	**$**	**982**	**98.4**	$	958	98.0

Overall average occupancy remained at nearly full levels at 98.4% as at June 30, 2011, compared to 98.0% last year, as CAPREIT's strong portfolio and favourable market conditions enabled Management to continue to focus on improving resident quality, with an emphasis on maintaining or increasing rents in most of the portfolio's core markets, as summarized below:

- Average monthly rents remained stable or increased in all regional markets of the portfolio with the exception of the Greater Vancouver Region, while average occupancy levels either remained strong or improved in all regions.
- Ontario, where residential suites represent about 66% of the total residential suite portfolio, experienced a significant increase of 2.8% in average monthly rents, despite the negative effects of the low guideline increase for 2011 of 0.7%, and improved occupancy levels to nearly full occupancy at 98.9%, up from 98.4% last year. Management expects the Ontario rental market to remain strong in 2011 and benefit from the higher guideline increase in 2012.
- In Québec, representing about 14% of the total residential suite portfolio, average monthly rents increased 1.4% from the same period last year while occupancy levels decreased slightly to 97.1% from 97.9% over the same period last year partly as a result of the adverse impact of ongoing construction at certain properties. Management expects the Québec City rental market to remain stable and the Greater Montréal Region occupancy levels to improve.
- Improving industry and economic conditions in British Columbia, partially offset by the impact of below market rents at the recently acquired properties, resulted in a 1.5% increase in average monthly rents while occupancy

levels remained unchanged from last year at nearly full occupancy at 97.6%. Management expects British Columbia's rental market to continue to remain strong through the rest of 2011.

- Despite the adverse impact of rent discounting on suite turnovers, as discussed earlier, improving market conditions in Alberta resulted in an overall 3.5% improvement in average monthly rents on a year-over-year basis while occupancy levels also improved from 92.9% last year to 95.8% at June 30, 2011. Management believes the Alberta market will remain challenging but is expected to improve in 2011.

Overall average monthly rents for the residential suite portfolio as at June 30, 2011 increased by approximately 2.5% as compared to June 30, 2010. Management believes annual occupancies can be maintained in the 97% to 98% range and the trend for gradual increases in average monthly rents will continue, providing the basis for sustainable year-over-year increases in revenues.

Management also believes the defensive characteristics of its nationwide portfolio and its ongoing strategies to further diversify among Canada's major rental markets and by property type will continue to protect Unitholders from downturns in any specific geographic region or demographic sector. This characteristic is demonstrated by CAPREIT's ability to increase overall average monthly rents and maintain high occupancy levels in the course of the soft economic climate experienced over the last few years.

The table below shows the incremental tenant inducements incurred during the periods ended June 30, 2011 and 2010 as well as the amortization of tenant inducements and loss from vacancies included in net rental revenue for the same periods.

Tenant Inducements and Vacancy Loss on Residential Suites and Sites

	Three Months Ended June 30		**Six Months Ended June 30**	
($ Thousands)	**2011**	**2010**	**2011**	**2010**
New Tenant Inducements Incurred	**$ 216**	$ 278	**$ 366**	$ 415
Tenant Inducements Amortized	**$ 254**	$ 260	**$ 541**	$ 504
Vacancy Loss Incurred	**1,453**	1,978	**3,074**	3,929
Total Amortization and Loss	**$ 1,707**	$ 2,238	**$ 3,615**	$ 4,433

RESULTS OF OPERATIONS

Total Operating Revenues by Geography

($ Thousands)	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Ontario				
Greater Toronto Area	**$ 49,568**	$ 47,519	**$ 98,436**	$ 94,147
Ottawa	**2,151**	2,073	**4,288**	4,149
London / Kitchener / Waterloo	**2,363**	3,655	**4,720**	7,269
Other Ontario	**4,534**	4,298	**9,147**	8,586
Ontario Residential Suites	**$ 58,616**	$ 57,545	**$ 116,591**	$ 114,151
MHC Land Lease Sites	**2,517**	2,457	**5,019**	4,898
	$ 61,133	$ 60,002	**$ 121,610**	$ 119,049
Québec				
Greater Montréal Region	**$ 4,720**	$ 5,098	**$ 9,371**	$ 10,353
Québec City	**4,853**	4,794	**9,729**	9,580
	$ 9,573	$ 9,892	**$ 19,100**	$ 19,933
British Columbia				
Greater Vancouver Region	**$ 5,922**	$ 4,699	**$ 10,793**	$ 8,885
Victoria	**2,119**	1,168	**4,214**	2,321
	$ 8,041	$ 5,867	**$ 15,007**	$ 11,206
Alberta				
Edmonton	**$ 991**	$ 942	**$ 2,008**	$ 1,946
Calgary	**4,157**	3,954	**8,238**	7,952
	$ 5,148	$ 4,896	**$ 10,246**	$ 9,898
Nova Scotia				
Halifax	**$ 3,714**	$ 3,509	**$ 7,371**	$ 7,006
Saskatchewan				
Saskatoon	**$ 333**	$ 304	**$ 648**	$ 613
Regina	**293**	285	**585**	568
	$ 626	$ 589	**$ 1,233**	$ 1,181
Total Residential Suites	**$ 85,718**	$ 82,298	**$ 169,548**	$ 163,375
Total Residential Suites and MHC Land Lease Sites	**$ 88,235**	$ 84,755	**$ 174,567**	$ 168,273

Results of Operations

($ Thousands)	Three Months Ended June 30 2011	%(1)	2010	%(1)	Six Months Ended June 30 2011	%(1)	2010	%(1)
Operating Revenues								
Net Rental Revenues	**$ 83,613**	**94.8**	$ 80,725	95.2	**$ 165,165**	**94.6**	$ 160,317	95.3
Other (2)	**4,622**	**5.2**	4,030	4.8	**9,402**	**5.4**	7,956	4.7
Total Operating Revenues	**88,235**	**100.0**	84,755	100.0	**174,567**	**100.0**	168,273	100.0
Operating Expenses								
Realty Taxes	**10,789**	**12.2**	10,973	13.0	**21,815**	**12.5**	22,078	13.1
Utilities	**8,484**	**9.6**	7,607	9.0	**20,638**	**11.8**	20,969	12.5
Other	**16,971**	**19.3**	15,976	18.8	**33,559**	**19.2**	31,384	18.6
Total Operating Expenses	**36,244**	**41.1**	34,556	40.8	**76,012**	**43.5**	74,431	44.2
NOI	**$ 51,991**	**58.9**	$ 50,199	59.2	**$ 98,555**	**56.5**	$ 93,842	55.8

(1) As a percentage of Total Operating Revenues.
(2) Comprises ancillary income such as parking, laundry and antenna income.

Operating Revenues

For the three and six months ended June 30, 2011, total operating revenues increased by 4.1% and 3.7%, respectively, compared to the same periods last year due to the contribution from acquisitions, increased average monthly rents and higher occupancies as reported earlier. As CAPREIT continues to enhance the profile of its resident base and increase the level of service to residents, it expects to continue to realize further increases in operating revenues. For the three and six months ended June 30, 2011, ancillary revenues, such as parking, laundry and antenna income, rose by a significant 14.7% and 18.2%, respectively, as Management continued its focus on maximizing the revenue potential of its property portfolio as well as the result of partially non-recurring items of $0.7 million for the six months ended June 30, 2011 ($0.1 million in the second quarter).

For the three and six months ended June 30, 2011, overall average residential vacancies as a percentage of operating revenues improved to 1.6% and 1.8%, respectively, compared to 2.3% and 2.3%, respectively, for the same periods last year. The improvements in occupancies were primarily due to strengthening market conditions in most regions compared to the prior year.

For the three and six months ended June 30, 2011, bad debt and tenant inducements remained consistent with prior year periods at less than 1.0% as a percentage of revenues.

Estimated Net Rental Revenue Run-Rate

As at June 30, ($ Thousands)	**2011**	**2010**
Residential Rent Roll (1),(2)	**$ 334,478**	$ 316,610
Commercial Rent Roll (1),(2)	**8,281**	8,043
Annualized Net Rental Revenue Run-Rate	**$ 342,759**	324,653

(1) Based on rent roll as at June 30, net of vacancy loss, tenant inducements and bad debt for the 12 months ended on such date.
(2) Includes rent roll for all properties held as at June 30.

The table above shows the estimated net rental revenue run-rate, net of average historical vacancy loss, tenant inducements and bad debt and based on the average monthly rents in place and CAPREIT's share of residential suites and sites as at June 30, 2011 and 2010. The estimated annualized net rental revenue run-rate improved by 5.6% to $342.8 million from $324.7 million. Net rental revenue for the 12 months ended June 30, 2011 was $327.6 million (2010 – $319.4 million).

Operating Expenses

Overall operating expenses as a percentage of revenues were negatively impacted in the three and six months ended June 30, 2011 compared to the same periods last year as a result of a combination of: (i) the introduction of the Harmonized Sales Tax ("HST") in Ontario and British Columbia on July 1, 2010, (ii) rising electricity rates in Ontario, (iii) considerably higher consumption of natural gas in the second quarter as a result of unusually cool weather for the period, and (iv) higher repairs and maintenance ("R&M") costs. As a result of these negative factors, for the three months ended June 30, 2011, total operating expenses as a percentage of revenues increased slightly in comparison to the same period last year.

Realty Taxes

For the three and six months ended June 30, 2011, realty taxes as a percentage of revenues have continued their downward trend to 12.2% and 12.5%, respectively, compared to 13.0% and 13.1% for the same periods last year. The decrease is primarily the result of the enhanced diversification of the portfolio into regions with lower taxation rates as well as a successful realty tax management program to mitigate rising realty taxes in certain regions.

Utilities

As a percentage of revenues, utility costs for the three and six months ended June 30, increased to 9.6% from 9.0%, respectively, and decreased to 11.8% from 12.5% for the same periods last year.

CAPREIT's utility costs can be highly variable from year to year and can experience significant increases in costs during the winter months as additional resources are consumed to heat the properties. The table below provides CAPREIT's utility costs by type.

($ Thousands)	Three Months Ended June 30		Six Months Ended June 30	
	2011	**2010**	**2011**	**2010**
Electricity	**$ 3,878**	$ 3,621	**$ 9,355**	$ 8,778
Natural Gas	**2,232**	1,587	**6,716**	7,399
Water	**2,286**	2,336	**4,340**	4,627
Heating Oil	**88**	63	**227**	165
Total	**$ 8,484**	**7,607**	**20,638**	**20,969**

Electricity costs increased in 2011 primarily due to an increase in electricity rates and the introduction of the HST in Ontario beginning in July 2010, as well as the impact of cooler weather on CAPREIT's electrically heated properties.

For the three months ended June 30, 2011, natural gas cost increased significantly over the same period last year as a result of considerably higher consumption due to cooler weather earlier in the second quarter. However, the impact of the higher consumption was significantly mitigated by Management's successful energy-saving initiatives. For the six months ended June 30, 2011, natural gas cost decreased over the same period last year primarily as a result of a revised natural gas supply and pricing strategy implemented in 2010 that resulted in lower pricing compared to the unfavourable fixed-price arrangements in effect prior to March 1, 2010 (see the Risks and Uncertainties section for a detailed description of the cost-management strategies employed by CAPREIT) as well as the energy-saving initiatives in place.

Subsequent to the second quarter, CAPREIT entered into a fixed-price natural gas contract covering the period November 1, 2011 to October 31, 2012 (see note 26 to the accompanying unaudited consolidated interim financial statements). The contract fixes the price of the natural gas commodity at $3.79 per gigajoule (excluding transportation and other costs) for 1,900 gigajoules per day, which represents approximately 50% of CAPREIT's anticipated natural gas delivery requirements for the related 12 months. The fixed price arrangement is intended to mitigate the risk of rising natural gas prices over the related period.

The table below explains the key components of the change in natural gas costs between the three and six months ended June 30, 2010 and 2011:

($ Thousands)	Three Months Ended June 30	Six Months Ended June 30
Natural Gas Costs - Period ended June 30, 2010	$ 1,587	$ 7,399
Impact of Change in Consumption	350	772
Impact of Unwinding Fixed-Price Commitments	–	(759)
Impact of Change in Spot Prices on Unhedged Supply	274	(633)
Net Impact of Property Acquisitions and Dispositions	21	(63)
Natural Gas Costs - Period ended June 30, 2011	$ 2,232	$ 6,716

Other Operating Expenses

Other operating expenses, which include R&M costs, wages and benefits, insurance and advertising, increased as a percentage of revenues for the three and six months ended June 30, 2011, to 19.3% and 19.2%, respectively, from 18.8% and 18.6%, for the same periods last year. The increase was primarily due to higher R&M costs driven by a combination of factors including the integration of new properties and as a by-product of the ongoing capital investment program, however, the overall increase was partially offset by CAPREIT's enhanced procurement strategies aimed to reduce the unfavourable impact of HST on expenses and by lower insurance costs compared to last year.

NET OPERATING INCOME

Management believes NOI is a key indicator of operating performance in the real estate industry. NOI includes all rental revenues generated at the property level, less: (i) related direct costs such as utilities, realty taxes, insurance, R&M costs and on-site wages and salaries; and (ii) an appropriate allocation of overhead costs. It may not, however, be comparable to similar measures presented by other real estate trusts or companies.

The following tables show the NOI and the NOI margin attained for each regional market for the three and six months ended June 30, 2011 and 2010.

NOI by Geography

For The Three Months Ended June 30,	**2011**				**2010**		
($ Thousands)		**NOI**	**NOI Margin (%)**	**Change (%) (1)**		**NOI**	**NOI Margin (%)**
Ontario							
Greater Toronto Area	**$**	**29,154**	**58.8**	**4.0**	$	28,043	59.0
Ottawa		**1,219**	**56.7**	**6.7**		1,142	55.1
London / Kitchener / Waterloo		**1,349**	**57.1**	**(30.0)**		1,927	52.7
Other Ontario		**2,651**	**58.5**	**10.0**		2,410	56.1
Ontario Residential Suites	**$**	**34,373**	**58.6**	**2.5**	$	33,522	58.3
MHC Land Lease Sites		**1,349**	**53.6**	**(1.8)**		1,374	55.9
	$	**35,722**	**58.4**	**2.4**	$	34,896	58.2
Québec							
Greater Montréal Region	**$**	**2,603**	**55.1**	**(15.2)**	$	3,069	60.2
Québec City		**2,849**	**58.7**	**(1.8)**		2,902	60.5
	$	**5,452**	**57.0**	**(8.7)**	$	5,971	60.4
British Columbia							
Greater Vancouver Region	**$**	**3,552**	**60.0**	**18.9**	$	2,987	63.6
Victoria		**1,423**	**67.2**	**105.6**		692	59.2
	$	**4,975**	**61.9**	**35.2**	$	3,679	62.7
Alberta							
Edmonton	**$**	**594**	**59.9**	**2.4**	$	580	61.6
Calgary		**2,361**	**56.8**	**1.7**		2,321	58.7
	$	**2,955**	**57.4**	**1.9**	$	2,901	59.3
Nova Scotia							
Halifax	**$**	**2,490**	**67.0**	**4.1**	$	2,392	68.2
Saskatchewan							
Saskatoon	**$**	**204**	**61.3**	**20.7**	$	169	55.6
Regina		**193**	**65.9**	**1.0**		191	67.0
	$	**397**	**63.4**	**10.3**	$	360	61.1
Total Residential Suites	**$**	**50,642**	**59.1**	**3.7**	$	48,825	59.3
Total Residential Suites and MHC Land Lease Sites	**$**	**51,991**	**58.9**	**3.6**	$	50,199	59.2

(1) Change in NOI from prior year comparable period.

For The Six Months Ended June 30,	2011			2010	
($ Thousands)	NOI	NOI Margin (%)	Change (%) (1)	NOI	NOI Margin (%)
Ontario					
Greater Toronto Area	**$ 55,805**	**56.7**	**7.6**	$ 51,859	55.1
Ottawa	**2,213**	**51.6**	**1.9**	2,172	52.4
London / Kitchener / Waterloo	**2,569**	**54.4**	**(29.4)**	3,639	50.1
Other Ontario	**4,896**	**53.5**	**11.0**	4,412	51.4
Ontario Residential Suites	**$ 65,483**	**56.2**	**5.5**	$ 62,082	54.4
MHC Land Lease Sites	**2,762**	**55.0**	**(4.7)**	2,897	59.1
	$ 68,245	**56.1**	**5.0**	$ 64,979	54.6
Québec					
Greater Montréal Region	**$ 4,753**	**50.7**	**(15.4)**	$ 5,619	54.3
Québec City	**5,440**	**55.9**	**(2.0)**	5,552	58.0
	$ 10,193	**53.4**	**(8.8)**	$ 11,171	56.0
British Columbia					
Greater Vancouver Region	**$ 6,317**	**58.5**	**16.6**	$ 5,416	61.0
Victoria	**2,639**	**62.6**	**90.5**	1,385	59.7
	$ 8,956	**59.7**	**31.7**	$ 6,801	60.7
Alberta					
Edmonton	**$ 1,153**	**57.4**	**(3.1)**	$ 1,190	61.2
Calgary	**4,548**	**55.2**	**3.3**	4,401	55.3
	$ 5,701	**55.6**	**2.0**	$ 5,591	56.5
Nova Scotia					
Halifax	**$ 4,752**	**64.5**	**2.9**	$ 4,618	65.9
Saskatchewan					
Saskatoon	**$ 339**	**52.3**	**8.0**	$ 314	51.2
Regina	**369**	**63.1**	**0.3**	368	64.8
	$ 708	**57.4**	**3.8**	$ 682	57.7
Total Residential Suites	**$ 95,793**	**56.5**	**5.3**	$ 90,945	55.7
Total Residential Suites and MHC Land Lease Sites	**$ 98,555**	**56.5**	**5.0**	$ 93,842	55.8

(1) Change in NOI from prior year comparable period.

In the second quarter of 2011, NOI improved by $1.8 million or 3.6%, while the NOI margin declined slightly to 58.9% from 59.2% last year. For the first six months of 2011, overall NOI increased by $4.7 million or 5.0%, while the NOI margin improved to 56.5% from 55.8% for the same period last year. The significant changes in NOI contribution in specific regions of the portfolio were primarily the result of acquisitions and dispositions completed in the intervening 12 month period. While overall NOI and NOI margin increased for the year to date period, CAPREIT remains focused on continuing to further improve NOI through a combination of accretive and value-enhancing acquisitions, successful sales and marketing strategies to improve revenues and investments in capital programs to further reduce costs and enhance the quality and value of its portfolio.

Ontario:

NOI from the Ontario portfolio increased for the three and six months ended June 30, 2011 by 2.4% and 5.0%, respectively, from the same periods last year, primarily due to lower operating costs as a percentage of revenues from a combination of lower prices for natural gas though partially offset by higher R&M costs in the second quarter. As a result, the NOI margin improved for the three and six months ended June 30, 2011 to 58.4% and 56.1%, respectively, from 58.2% and 54.6%. Management believes the Ontario portfolio will remain strong and generate steady returns in the medium term despite significant challenges imposed by the low guideline increase for 2011 as discussed earlier and the impact of HST.

Québec:

The dispositions completed in the Greater Montréal Region during 2010 were the main contributing factor to lower revenues and NOI for the three and six months ended June 30, 2011 compared to the same periods last year. For the three and six months ended June 30, 2011, the NOI margin decreased to 57.0% and 53.4%, respectively, from 60.4% and 56.0% for the same periods last year, primarily due to higher wages and utility costs. CAPREIT believes the Québec rental market will remain stable and generate steady to improving returns in the medium term.

British Columbia:

Acquisitions completed since the second quarter of last year were the primary contributing factor for the large increase in revenues and NOI for the three and six months ended June 30, 2011. Certain non-recurring costs associated with the integration of these acquisitions into the portfolio combined with the negative impact of HST, resulted in higher operating costs and a lower margin for the British Columbia portfolio for the three and six months ended June 30, 2011, declining to 61.9% and 59.7%, respectively, from 62.7% and 60.7% for the same periods last year. With its growth in the region, CAPREIT has established the infrastructure and critical mass to strengthen its presence and improve its performance in this market going forward. Management believes the ongoing stabilization of occupancies will enable the British Columbia portfolio to continue to generate improved returns in the medium term. Management believes that the impact of the introduction of the HST in British Columbia will remain more modest than in Ontario as only about 10% of the portfolio is located in the province.

Alberta:

As expected, the Alberta market has begun to show signs of improving rental rates and occupancies in 2011. The resulting increase in revenues for the first six months of 2011 in comparison to last year was, however, offset by increases in overall operating costs. As a result, for the three and six months ended June 30, 2011, NOI margin decreased to 57.4% and 55.6%, respectively, from 59.3% and 56.5% for the same periods last year. Management believes the Alberta market will remain challenging but should continue to improve over the medium term. The overall impact on CAPREIT will be minimal as less than 5% of its overall residential suite portfolio is located in the province.

Nova Scotia:

Increased average monthly rents and occupancy levels offset by higher overall operating costs resulted in the NOI margin decreasing slightly for the three and six months ended June 30, 2011, to 67.0% and 64.5%, respectively, from 68.2% and 65.9% for the same periods last year. Management believes its presence in downtown locations will serve to maintain or increase occupancy levels and average monthly rents in the medium term.

Saskatchewan:

The Saskatchewan market continues to perform well with slightly higher average monthly rents and nearly full occupancies, which resulted in higher revenues and higher NOI compared to last year. However, NOI margins were impacted as a result of slightly higher wages during the current year periods compared to last year. However, the overall impact on CAPREIT of changes in operating performance in its Saskatchewan properties is minimal as less than 1% of the overall residential suite portfolio is located in the province. The province's economy remains strong and Management believes CAPREIT is well-positioned to maintain or improve current occupancy levels and average monthly rents in the province over the medium term.

OPERATING PERFORMANCE BY TYPE OF PROPERTY INTEREST

The following tables provide a summary of the NOI by type of property interest held by CAPREIT for the three and six months ended June 30, 2011 and 2010:

NOI by Type of Property Interest

Three Months Ended June 30,		**2011**			**2010**	
($ Thousands)			%			%
Fee Simple Interests - Apartments and Townhomes	$	**40,669**	**78.2**	$	39,348	78.4
Operating Leasehold Interests		**7,959**	**15.3**		7,415	14.8
Land Leasehold Interests		**2,014**	**3.9**		2,062	4.1
Total Residential Suites	$	**50,642**	**97.4**	$	48,825	97.3
Fee Simple Interests - MHC Land Lease Sites		**1,349**	**2.6**		1,374	2.7
Total	$	**51,991**	**100.0**	$	50,199	100.0

Six Months Ended June 30,		**2011**			**2010**	
($ Thousands)			%			%
Fee Simple Interests - Apartments and Townhomes	$	**76,518**	**77.6**	$	73,058	77.9
Operating Leasehold Interests		**15,282**	**15.5**		13,913	14.8
Land Leasehold Interests		**3,993**	**4.1**		3,974	4.2
Total Residential Suites	$	**95,793**	**97.2**	$	90,945	96.9
Fee Simple Interests - MHC Land Lease Sites		**2,762**	**2.8**		2,897	3.1
Total	$	**98,555**	**100.0**	$	93,842	100.0

STABILIZED PORTFOLIO PERFORMANCE

	Three Months Ended June 30					**Six Months Ended June 30**				
		2011	**% (1)**		**2010**		**2011**	**% (1)**		**2010**
Stabilized Suites and Sites		**26,531**			26,531		**26,531**			26,531
Operating Revenues (millions)	**$**	**83.7**	**3.1**	$	81.2	**$**	**167.4**	**3.3**	$	162.0
Operating Costs (millions)	**$**	**34.4**	**3.9**	$	33.1	**$**	**73.5**	**3.1**	$	71.3
Net Operating Income (millions)	**$**	**49.3**	**2.5**	$	48.1	**$**	**93.9**	**3.5**	$	90.7
Net Operating Income Margin (%)		**58.9**	**(0.3)**		59.2		**56.1**	**0.1**		56.0

(1) Change from comparable prior year period.

Stabilized properties for the three and six months ended June 30, 2011 are defined as all properties owned by CAPREIT continuously since December 31, 2009, and therefore do not take into account the impact on performance of acquisitions or dispositions completed during 2011 and 2010. As at June 30, 2011, stabilized suites and sites represent 92.7% of the overall portfolio.

As of June 30, 2011, CAPREIT has generated 22 consecutive quarters of stable or improved year-over-year NOI growth for stabilized properties. For the three and six months ended June 30, 2011, operating revenues increased 3.1% and 3.3%, respectively, and operating costs also increased 3.9% and 3.1%, respectively, over the same periods last year. As a result, stabilized NOI increased by 2.5% and 3.5%, respectively, for the three and six months ended June 30, 2011.

For the three and six months ended June 30, 2011, the NOI margin for properties acquired since December 31, 2009, was 63.6% and 63.0%, respectively.

NET INCOME

	Three Months Ended June 30		Six Months Ended June 30	
($ Thousands)	**2011**	2010	**2011**	2010
Net Operating Income	**$ 51,991**	$ 50,199	**$ 98,555**	$ 93,842
(Less) Plus:				
Trust Expenses	**(3,694)**	(3,244)	**(7,299)**	(5,867)
Unrealized Gain (Loss) on Remeasurement of Investment Properties	**30,792**	(6,800)	**25,331**	(15,164)
Realized Loss on Disposition of Investment Property	**–**	(2,489)	**(95)**	(2,489)
Remeasurement of Exchangeable Units	**49**	(259)	**(905)**	(378)
Unit-based Compensation Expenses	**(139)**	(1,926)	**(5,940)**	(2,610)
Interest on Mortgages Payable	**(20,214)**	(19,789)	**(40,002)**	(39,365)
Interest on Bank Indebtedness	**(1,321)**	(1,808)	**(2,069)**	(3,287)
Interest on Exchangeable Units	**(111)**	(111)	**(222)**	(222)
Net Loss on Natural Gas Contracts	**–**	–	**–**	(4,497)
Other Income	**465**	463	**930**	925
Amortization	**(655)**	(658)	**(1,302)**	(1,309)
Severance and Other Employee Costs	**(1,352)**	(382)	**(1,352)**	(532)
Unrealized Gain (Loss) on Derivative Financial Instruments	**1,362**	4	**1,206**	(50)
Recovery of Deferred Income Taxes	**–**	10,385	**–**	15,260
Net Income	**$ 57,173**	$ 23,585	**$ 66,836**	$ 34,257

Trust Expenses

Trust expenses include costs directly attributable to head office, such as salaries, trustee fees, professional fees for legal and advisory services, trustees' and officers' insurance premiums, and other general and administrative expenses. Trust expenses increased significantly for the three and six months ended June 30, 2011, to $3.7 million and $7.3 million, respectively, from $3.2 million and $5.9 million, respectively, for the same periods last year, mainly due to higher legal, consulting and compensation costs.

Unrealized Gain (Loss) on Remeasurement of Investment Properties

With the adoption of IFRS effective January 1, 2010, CAPREIT elected to recognize its investment properties at fair value at each reporting period, with any unrealized gain or loss upon remeasurement recognized in the consolidated statement of income for the period (see discussion in the Adoption of IFRS section). A description of the key components of the change in the fair value of investment properties is included in the Investment Properties section.

Remeasurement of Exchangeable Units and Related Interest Expense

With the adoption of IFRS effective January 1, 2010, CAPREIT is required to account for its Exchangeable Units as a financial liability, to remeasure such liability at each reporting period, and to include this remeasurement in the consolidated statement of income (see discussion in the Adoption of IFRS section). Remeasurement of Exchangeable Units is the result of the change in the market value of the underlying Trust Units in the respective period. Interest expense remained unchanged at $0.1 million and $0.2 million, respectively, for the three and six months ended June 30, 2011.

Unit-based Compensation Expenses

Unit-based compensation benefits are provided to officers, trustees and certain employees and are intended to facilitate long-term ownership of Trust Units and to provide additional incentives by increasing the participants' interest, as owners, in CAPREIT. Unit-based compensation expenses include costs attributable to these incentive plans, namely the Restricted Unit Rights Plan ("RUR Plan"), Unit Option Plan ("UOP"), Deferred Unit Plan ("DUP"), Long-Term Incentive Plan ("LTIP") and Senior Executive Long-Term Incentive Plan ("SELTIP") (see notes 14 and 16 in the accompanying unaudited consolidated interim financial statements for a discussion of these plans).

As a result of CAPREIT being an open-ended mutual fund trust, whereby each Unitholder of the Trust Units is entitled to redeem their Units in accordance with the conditions specified in CAPREIT's Declaration of Trust ("DOT"), under IFRS, the underlying Trust Units relating to the Unit-based compensation awards are not treated as equity and are instead

considered as financial liabilities. As such, these Unit-based compensation awards must be presented as liabilities and remeasured at fair value at each reporting date. Close-ended mutual fund trusts, such as certain of CAPREIT's industry peers, are not required to remeasure their respective Unit-based compensation awards. In such cases, the related expense is limited to the amortization of the fair value of the award over the applicable vesting period.

In order to aid comparability with CAPREIT's peers, the Unit-based compensation expense has been separated into two components: (i) the amortization of the grant date fair value of the award over its vesting period, and (ii) the remeasurement of awards outstanding at period-end at fair value.

CAPREIT's Unit-based compensation expense for the three and six months ended June 30, 2011 decreased to $0.1 million from $1.9 million, respectively, and increased to $5.9 million from $2.6 million, respectively, for the same periods last year. The increase is mainly due to the increase in the market price of CAPREIT's Trust Units as well as the issuance of additional DUP and RUR awards. The table below demonstrates the impact of each component of CAPREIT's plans on the total compensation expense.

	Three Months Ended June 30		Six Months Ended June 30	
($ Thousands)	**2011**	**2010**	**2011**	**2010**
Remeasurement of Unit-Based Compensation Liabilities	**$ (233)**	$ 1,672	**$ 5,241**	$ 2,056
Amortization of Fair Value on Grant Date of Unit-based Compensation	**372**	254	**699**	554
Total	**$ 139**	$ 1,926	**$ 5,940**	$ 2,610

Interest on Mortgages Payable

Interest on mortgages payable increased in the three and six months ended June 30, 2011, to $20.2 million and $40.0 million, respectively, from $19.8 million and $39.4 million for the same periods last year, due to increased mortgage top ups and acquisition financing since June 30, 2010. However, as a percentage of operating revenues, mortgage interest expense remained unchanged at 22.9% for the three and six months ended June 30, 2011 compared to 23.3% and 23.4%, respectively, for the same periods last year as a result of CAPREIT's successful refinancing of mortgages at lower interest rates. Effective January 1, 2010, the amortization of insurance premiums, which relate to mortgages insured by CMHC, has been reclassified from amortization expense to interest on mortgages.

Interest on Bank Indebtedness

Interest on bank indebtedness relates to borrowings under the Credit Facilities (see Liquidity and Capital Resources discussion). Interest on bank indebtedness for the three and six months ended June 30, 2011 decreased significantly to $1.3 million and $2.1 million, respectively, from $1.8 million and $3.3 million, respectively, for the same periods last year due to lower borrowings throughout the period resulting from the repayment of a majority of the borrowings from the capital raised in the equity offering completed in December 2010. The weighted average floating interest rate for the amounts drawn under the Acquisition and Operating Facility was 3.98% at June 30, 2011, compared to 3.69% at June 30, 2010. At June 30, 2011, the weighted average floating interest rate for the amounts drawn under the Land Lease Facility was 4.06%, compared to 3.69% at June 30, 2010.

Net Loss on Natural Gas Contracts

As described in CAPREIT's 2010 Annual Report, effective March 1, 2010, Management implemented a revised natural gas supply strategy that, in effect, converted substantially all of the fixed-price natural gas commitments to spot pricing arrangements through the amendment of physical delivery contracts and the use of derivative financial instruments. The amendment resulted in the crystallization of a $4.5 million loss for the period ended March 31, 2010, settled through the use of derivative financial instruments (see item (ii) *Natural gas contracts* below).

Other Income

Other income consists primarily of dividends received from investments (see notes 2 and 10 to the accompanying unaudited consolidated interim financial statements).

Amortization

These costs represent the amortization of CAPREIT's head office property, plant and equipment on a straight-line basis over their estimated useful lives ranging primarily between three and five years. Also included is the amortization of deferred loan costs associated with the Credit Facilities over their respective terms.

Severance and Other Employee Costs

For the three and six months ended June 30, 2011, severance and other employee costs increased to $1.4 million and $1.4 million, respectively, from $0.4 million and $0.5 million, respectively, for the same periods last year, primarily due to costs related to the departure of CAPREIT's former Chief Financial Officer, as announced on May 27, 2011.

Unrealized Gain (Loss) on Derivative Financial Instruments

i) *Forward interest rate hedges for which hedge accounting is being applied*: In June 2011, with the authorization of the Board of Trustees, CAPREIT entered into a forward interest rate hedge agreement to hedge interest rates on approximately $312 million of mortgages maturing between September 2011 and June 2013, to which hedge accounting is being applied. The maturing mortgages are expected to be refinanced on ten-year terms and are expected to bear interest rates between a floor rate of 3.00% with a maximum of 3.62%, before credit spread. At each reporting date, the hedging derivative will be marked-to-market with the difference between the change in market value and intrinsic value recognized in net income or loss.

ii) *Natural gas contracts:* The amended natural gas supply strategy outlined earlier comprises a physical delivery contract at spot pricing, a floating-to-fixed derivative financial instrument with the natural gas supplier and an offsetting fixed-to-floating derivative financial instrument with a Canadian chartered bank.

Hedge accounting is not being applied to these derivative financial instruments, which will be marked-to-market through net income on an ongoing basis. As at June 30, 2011, a marked-to-market unrealized loss of $1.8 million on the floating-to-fixed derivative financial instrument has been recorded in other liabilities and a marked-to-market unrealized gain of $0.8 million on the fixed-to-floating derivative financial instrument has been recorded in other assets. As a result of the amendment of the fixed-price natural gas commitments, the inherent net loss of $4.5 million was crystallized and included in the consolidated statements of income for the three and six months ended June 30, 2010.

iii) *Interest rate contracts for which hedge accounting is being applied:* As at June 30, 2011, CAPREIT has a $55 million interest rate swap agreement fixing the interest rate at 5.706%, maturing in July 2012, to which hedge accounting is being applied. The agreement effectively converts borrowings on a banker's acceptance-based floating rate credit facility to a fixed-rate facility for a five-year term.

Additional information on the above instruments is included in notes 17 and 18 to the accompanying unaudited consolidated interim financial statements.

Deferred Income Taxes

Amendments enacted in 2007 (the "SIFT Rules") to the Income Tax Act (Canada) (the "Tax Act") modified the federal income tax treatment of certain publicly traded trusts and partnerships that were deemed specified investment flow-through trusts or partnerships ("SIFT"). Under the SIFT Rules, a SIFT such as CAPREIT would generally be taxed in a manner similar to corporations on income from a business carried on in Canada at a rate similar to the combined federal/provincial tax rate of a corporation, provided that CAPREIT distributed its non-portfolio income. However, the SIFT Rules do not apply until the 2011 taxation year to SIFTs that were publicly traded and were deemed SIFTs as at October 31, 2006. Effective December 24, 2010, based on the guidelines and conditions established under the Tax Act (the "REIT Exception"), CAPREIT became qualified for an exemption from the SIFT Rules (see the Risks and Uncertainties section in CAPREIT's 2010 Annual Report for additional details).

Under IFRS, CAPREIT is unable to assume that it will distribute its non-portfolio income, which means that, had CAPREIT not met the REIT Exception, it would have been subject to tax beginning in 2011 as an inter vivos trust at the highest marginal tax rate applicable to individuals. The transition to IFRS requires that CAPREIT record a deferred income tax provision based on this higher tax rate for the comparative period until the fourth quarter of 2010, at which time CAPREIT satisfied the REIT Exception.

On July 20, 2011, the Department of Finance released proposed amendments to the taxation of real estate investment trusts which include changes in respect of publicly-traded stapled securities. This proposed amendment does not apply to CAPREIT. CAPREIT continues to be qualified for an exemption from the SIFT Rules.

As CAPREIT uses the liability method of accounting for deferred income taxes, the non-cash deferred income tax liability balance represented the cumulative amount of taxes applicable to temporary differences between the carrying amount of assets and liabilities and their carrying amounts for tax purposes expected to reverse on or after January 1, 2011 upon satisfaction of the REIT Exception. As such, the deferred income tax liability of $440.5 million recorded as at January 1, 2010 was reversed and recorded as a recovery of $435.7 million to the consolidated statement of income and comprehensive income and a recovery of $4.8 million to other comprehensive income ("OCI") for the year ended December 31, 2010.

Realized Loss on Disposition of Investment Property

The realized loss on disposition of investment property of $0.1 million for the six months ended June 30, 2011 represents the difference between the net proceeds from the disposition compared to the fair value of the same property as at December 31, 2010.

OTHER COMPREHENSIVE INCOME

Included in OCI are the following:

i) *Unrealized gain on forward interest rate hedges*: As at June 30, 2011, CAPREIT has entered into a forward interest rate hedge agreement to hedge interest rates for a majority of mortgages maturing between September 2011 and June 2013. This forward interest rate hedge agreement has been assessed as an effective hedge in accordance with IAS 39, Financial Instruments: Recognition and Measurement, with the effective portion of the change in the intrinsic value of the hedging derivative to be recognized in OCI.

ii) *Unrealized loss on natural gas price swap agreement*: represents the cumulative marked-to-market loss on floating-to-fixed price swap agreements entered into in August and October 2010, which effectively converts floating prices for natural gas to a fixed-price arrangement for the winter 2011 period. This swap agreement has been assessed as an effective hedge in accordance with IAS 39. The cumulative marked-to-market loss will ultimately reverse over the remaining term of the swap agreement.

iii) *Realized loss on derivative financial instruments*: represents the cumulative marked-to-market losses to October 1, 2008 when hedge accounting ceased to be applied to interest rate forward contracts used to hedge CAPREIT's exposure to the potential rise in interest rates for refinancings of mortgages that matured in 2009.

iv) *Unrealized loss on interest rate swap agreements*: represents the cumulative marked-to-market loss on an interest rate swap agreement entered into in July 2007, which effectively converts borrowings on a banker's acceptance floating rate credit facility to a fixed-rate facility for $55 million for a five-year term. This interest rate swap agreement has been assessed as an effective hedge in accordance with IAS 39. The difference between the effective fixed interest rate and the corresponding three-month banker's acceptance rate is adjusted to interest expense every quarter. Accordingly, the cumulative marked-to-market loss will ultimately reverse over the remaining term of the interest rate swap agreement.

v) *Change in fair market value of investments*: represents the cumulative marked-to-market gain or loss for the period on investments accounted for as available-for-sale.

Additional information on the above instruments and investments is included in notes 17 and 2, respectively, to the accompanying unaudited consolidated interim financial statements.

SECTION III

PER UNIT CALCULATIONS

As a result of CAPREIT being an open-ended mutual fund trust, Unitholders are entitled to redeem their Trust Units, subject to certain restrictions. The impact of this redemption feature causes CAPREIT's Trust Units to be treated as financial liabilities. Consequently, all per Unit calculations are considered non-IFRS measures.

The following table explains the number of Units used in calculating non-IFRS financial measures on a per Unit basis:

Weighted Average Number of Units	**Three Months Ended June 30,**		**Six Months Ended June 30,**	
	2011	**2010**	**2011**	**2010**
Trust Units	**74,649**	66,101	**74,504**	66,026
Exchangeable Units [(1)]	**411**	411	**411**	411
Units under the DUP [(2)]	**83**	73	**79**	67
Basic Weighted Average Number of Units	**75,143**	66,585	**74,994**	66,504
Plus:				
Dilutive Units under the LTIP [(2),(3)]	**472**	186	**443**	167
Dilutive Units under the SELTIP [(2),(3)]	**171**	48	**158**	45
Units Rights under the RUR Plan [(2)]	**174**	71	**145**	50
Dilutive Unexercised Options under the UOP [(2),(4)]	**88**	31	**78**	28
Dilutive Weighted Average Number of Units	**76,048**	66,921	**75,818**	66,794

(1) See note 2 to the accompanying unaudited consolidated interim financial statements for details of Exchangeable Units.
(2) See notes 14 and 16 to the accompanying unaudited consolidated interim financial statements for details of CAPREIT's Unit-based compensation plans.
(3) Calculated using the treasury method after taking into account the respective subscriptions receivable (see note 16 to the accompanying unaudited consolidated interim financial statements).
(4) Calculated using the treasury method after taking into account the exercise prices.

NON-IFRS FINANCIAL MEASURES

Net Operating Income

NOI is a key non-IFRS financial measure of the operating performance of CAPREIT and is defined and reported in the Results of Operations section.

Distribution Reinvestment Plan ("DRIP") and Net Distributions Paid

	Three Months Ended June 30		**Six Months Ended June 30**	
($ Thousands)	**2011**	**2010**	**2011**	**2010**
Distributions Declared on Trust Units	**$ 20,165**	$ 17,856	**$ 40,258**	$ 35,669
Distributions Declared on Exchangeable Units	**111**	111	**222**	222
Distributions Declared on Awards Outstanding Under Unit-based Compensation Plans [(1)]	**702**	713	**1,383**	1,464
Total Distributions Declared	**20,978**	18,680	**41,863**	37,355
Less:				
Distributions on Trust Units Reinvested	**(4,104)**	(2,086)	**(7,951)**	(3,933)
Distributions on Unit Awards Reinvested [(1)]	**(702)**	(713)	**(1,383)**	(1,464)
Net Distributions Paid	**$ 16,172**	$ 15,881	**$ 32,529**	$ 31,958
Percent of Distributions Reinvested	**22.9%**	15.0%	**22.3%**	14.4%

(1) Comprises: (i) non-cash distributions related to the DUP and the RUR plan, and (ii) retained distributions on LTIP and SELTIP Units (see notes 14 and 16 to the accompanying unaudited consolidated interim financial statements for a discussion of these plans).

Under CAPREIT's DRIP, a participant may purchase additional Units with the cash distributions paid on the eligible Units, registered in the participant's name or held in a participant's account maintained pursuant to the DRIP. Each participant has the right to receive an additional amount equal to 5% of their monthly distributions reinvested pursuant to the DRIP, which shall automatically be paid on each distribution date in the form of additional Units. The price at which Units will be purchased with cash distributions will be the weighted average trading price for CAPREIT's Trust Units on the Toronto Stock Exchange ("TSX") for the five trading days immediately preceding the relevant distribution date.

The average participation rate in the DRIP and other plans under which distributions are reinvested increased for the three and six months ended June 30, 2011 to 22.9% and 22.3%, respectively, from 15.0% and 14.4% for the same periods last year. Also, as the price of CAPREIT's Units has steadily risen during the period since June 30, 2010, the number of Units issued for a given amount of reinvested distributions has declined. The DRIP participation rate is subject to factors beyond Management's control and varies between investors.

Distributions declared on Units outstanding under the Unit-based compensation plans in these tables are based on all awards granted under the RUR Plan, DUP, LTIP and SELTIP (see notes 14 and 16 to the accompanying unaudited consolidated interim financial statements for a discussion of these plans). When establishing the level of monthly cash distributions to Unitholders, the Board of Trustees relies on cash flow information including forecasts and budgets.

Funds From Operations

FFO is a measure of operating performance based on the funds generated by the business before reinvestment or provision for other capital needs. FFO as presented is in accordance with the recommendations of the Real Property Association of Canada, with the exception of the adjustment for the remeasurement at fair value of Unit-based compensation for reasons outlined earlier and the amortization of certain other assets. It may not, however, be comparable to similar measures presented by other real estate trusts or companies in similar or different industries. Management considers FFO to be an important measure of CAPREIT's operating performance.

Payout ratios compare total and net distributions declared to these non-IFRS financial measures. Management considers these ratios to also be important measures of the sustainability of the level of distributions.

A reconciliation of net income to FFO is as follows:

	Three Months Ended June 30		Six Months Ended June 30	
($ Thousands, except per Unit amounts)	**2011**	2010	**2011**	2010
Net Income	**$ 57,173**	$ 23,585	**$ 66,836**	$ 34,257
Adjustments				
Unrealized (Gain) Loss on Remeasurement of Investment Properties	**(30,792)**	6,800	**(25,331)**	15,164
Realized Loss on Disposition of Investment Property	**–**	2,489	**95**	2,489
Remeasurement of Exchangeable Units	**(49)**	259	**905**	378
Remeasurement of Unit-based Compensation Liabilities	**(233)**	1,672	**5,241**	2,056
Interest on Exchangeable Units	**111**	111	**222**	222
Recovery of Deferred Income Taxes	**–**	(10,385)	**–**	(15,260)
Amortization of Property, Plant and Equipment	**381**	301	**755**	610
FFO	**$ 26,591**	$ 24,832	**$ 48,723**	$ 39,916
FFO Per Unit – Basic	**$ 0.354**	$ 0.373	**$ 0.650**	$ 0.600
FFO Per Unit – Diluted	**$ 0.350**	$ 0.371	**$ 0.643**	$ 0.598
Distributions Declared	**$ 20,978**	$ 18,680	**$ 41,863**	$ 37,355
FFO Payout Ratio	**78.9%**	75.2%	**85.9%**	93.6%
Net Distributions Paid	**$ 16,172**	$ 15,881	**$ 32,529**	$ 31,958
Excess FFO over Net Distributions Paid	**$ 10,419**	$ 8,951	**$ 16,194**	$ 7,958
FFO Effective Payout Ratio	**60.8%**	64.0%	**66.8%**	80.1%

Normalized Funds From Operations

Management considers NFFO to be the key measure of CAPREIT's operating performance and the primary indicator with respect to the sustainability of CAPREIT's distributions. NFFO is calculated by excluding from FFO the effects of certain non-recurring items including changes in fair value of hedging instruments, losses incurred on the amendment of natural gas contracts as well as certain other non-recurring items. NFFO facilitates better comparability to prior period performance and provides a better indicator of CAPREIT's long-term cash flow generation capability. See the discussions under the Net Income and Risks and Uncertainties sections in this MD&A for additional information on hedging instruments currently in place and on the net loss on natural gas contracts.

A reconciliation of FFO to NFFO is as follows:

	Three Months Ended June 30		Six Months Ended June 30	
($ Thousands, except per Unit amounts)	**2011**	2010	**2011**	2010
FFO	**$ 26,591**	$ 24,832	**$ 48,723**	$ 39,916
Adjustments:				
Unrealized (Gain) Loss on Derivative Financial Instruments	**(1,362)**	(4)	**(1,206)**	50
Amortization of Loss on Derivative Financial Instruments included in Mortgage Interest	**267**	278	**531**	552
Net Loss on Natural Gas Contracts	**–**	–	**–**	4,497
Severance and Other Employee Costs	**1,352**	382	**1,352**	532
NFFO	**$ 26,848**	$ 25,488	**$ 49,400**	$ 45,547
NFFO per Unit – Basic	**$ 0.357**	$ 0.383	**$ 0.659**	$ 0.685
NFFO per Unit – Diluted	**$ 0.353**	$ 0.381	**$ 0.652**	$ 0.682
Total Distributions Declared	**$ 20,978**	$ 18,680	**$ 41,863**	$ 37,355
NFFO Payout Ratio	**78.1%**	73.3%	**84.7%**	82.0%
Net Distributions Paid	**$ 16,172**	$ 15,881	**$ 32,529**	$ 31,958
Excess NFFO over Net Distributions Paid	**$ 10,676**	$ 9,607	**$ 16,871**	$ 13,589
Effective NFFO Payout Ratio	**60.2%**	62.3%	**65.8%**	70.2%

Despite the negative effects of higher operating costs and a low permitted guideline increase on lease renewals in Ontario for 2011, NFFO for the three and six months ended June 30, 2011 increased by 5.3% and 8.5%, respectively, compared to the same periods last year primarily due to the contribution from acquisitions, higher average monthly rents and higher occupancy levels, resulting from Management's sales and marketing programs. These gains were partially offset by the lost contribution from properties sold since June 30, 2010.

For the three and six months ended June 30, 2011, basic NFFO per Unit decreased by 6.8% and 3.8%, respectively, compared to the same periods last year resulting from the approximately 13% increase in the weighted average number of Units outstanding primarily due to the equity offering completed in December 2010. Management expects per Unit FFO and NFFO and related payout ratios to improve in the medium term as a result of NOI contribution from the recent acquisitions.

Comparing distributions declared to NFFO, the NFFO payout ratios for the three and six months ended June 30, 2011 increased to 78.1% and 84.7%, respectively, compared to 73.3% and 82.0% for the same periods last year. The effective NFFO payout ratio, which compares NFFO to net distributions paid, improved for the three and six months ended June 30, 2011, to 60.2% and 65.8%, respectively, from 62.3% and 70.2% for the same periods last year primarily due to higher NFFO during the current year periods as well as higher participation in the DRIP. Management believes NFFO will be sufficient to fund CAPREIT's distributions on an annualized basis.

Adjusted Funds From Operations

AFFO is a supplemental measure of cash generated from operations that is used in the real estate industry to assess the sustainability of future distributions paid to Unitholders after a provision for maintenance property capital investments.

Management relies on an industry-based estimate to determine the amount of maintenance property capital investments as significant judgment is required to classify property capital investments as either *maintenance* or *stabilizing* or *value-enhancing* (see discussion under the Productive Capacity section). Management views AFFO as less reliable or applicable under a gross lease operating structure, as is the case for CAPREIT, because maintenance property capital investments are not clearly identifiable. However, given the current use by investors and other stakeholders of this non-IFRS financial measure, CAPREIT currently intends to continue presenting an estimate of AFFO.

CAPREIT calculates AFFO by deducting from NFFO an industry-based estimate for maintenance property capital investments and adding back the non-cash Unit-based compensation costs. In order to determine the AFFO payout ratio, CAPREIT compares distributions declared to AFFO. The effective AFFO payout ratio compares net cash distributions paid to AFFO.

A reconciliation of NFFO to AFFO is as follows:

	Three Months Ended June 30		Six Months Ended June 30	
($ Thousands, except per Unit amounts)	**2011**	**2010**	**2011**	**2010**
NFFO	**$ 26,848**	$ 25,488	**$ 49,400**	$ 45,547
Adjustments:				
Maintenance Capital Expenditure Provision (1)	**(2,981)**	(2,987)	**(5,963)**	(5,974)
Amortization of Fair Value of Unit-Based Compensation Financial Liabilities on Date of Grant	**365**	247	**685**	542
AFFO	**$ 24,232**	$ 22,748	**$ 44,122**	$ 40,115
AFFO per Unit – Basic	**$ 0.322**	$ 0.342	**$ 0.588**	$ 0.603
AFFO per Unit – Diluted	**$ 0.319**	$ 0.340	**$ 0.582**	$ 0.601
Distributions Declared	**$ 20,978**	$ 18,680	**$ 41,863**	$ 37,355
AFFO Payout Ratio	**86.6%**	82.1%	**94.9%**	93.1%
Net Distributions Paid	**$ 16,172**	$ 15,881	**$ 32,529**	$ 31,958
Excess AFFO Over Net Distributions Paid	**$ 8,060**	$ 6,867	**$ 11,593**	$ 8,157
Effective AFFO Payout Ratio	**66.7%**	69.8%	**73.7%**	79.7%

(1) Based on an industry estimate of $450 per suite per year and the weighted average number of residential suites during the period (see Productive Capacity section).

The AFFO payout ratios increased for the three and six months ended June 30, 2011 to 86.6% and 94.9%, respectively, from 82.1% and 93.1% for the same periods last year. The effective AFFO payout ratios for the three and six months ended June 30, 2011 improved as a result of higher DRIP participation rates period over period.

Changes in Non-IFRS Financial Measures

The adoption of IFRS has had a material impact on the presentation of financial results of CAPREIT. However, Management believes the underlying performance of CAPREIT is largely unaffected by the change in accounting principles and, as a result, where possible, Management has adjusted the calculation of its non-IFRS financial measures to exclude substantially the effects of the adoption of IFRS to maintain comparability with prior periods and with CAPREIT's industry peers.

The significant adjustments made by Management to each key non-IFRS financial measure are as follows:

Funds From Operations

i) *Fair value adjustment of investment properties*: unrealized gains or losses arising from the fair value remeasurement of investment properties have been adjusted in establishing FFO.

ii) *Fair value adjustment of Exchangeable Units and related interest expense*: although IFRS necessitates the presentation of Exchangeable Units as financial liabilities that must be remeasured at fair value, Management believes these Units are equity in nature. For purposes of comparability, Management has adjusted FFO for the unrealized gains and losses arising from the fair value remeasurement of Exchangeable Units as well the distributions made on these Units, which are treated as interest expense under IFRS.

iii) *Fair value adjustment of Unit-based compensation financial liabilities*: as outlined earlier, the requirement to remeasure at fair value all unsettled award Units at each reporting date is the result of the underlying Trust Units being considered financial liabilities for the purposes of determining the presentation and measurement of Unit-based compensation. This requirement applies only to those open-ended trusts with redeemable trust units, such as CAPREIT. As many trusts in CAPREIT's peer group do not fall into this category, Management has elected to adjust the calculation of FFO for the effects of the fair value remeasurement component to maintain comparability.

Adjusted Funds From Operations

i) *Amortization of grant date fair value of Unit-based compensation*: the use of the graded approach to amortize the grant date fair values under IFRS as compared to the straight-line approach under Canadian GAAP for the calculation of this non-cash expense results in a change in the amortization expense added back to arrive at AFFO.

Despite the above adjustments aimed at maintaining comparability with prior periods, certain effects in the adoption of IFRS will impact CAPREIT's non-IFRS financial measures, including the discontinuation of certain types of amortization expenses which were not previously adjusted for in arriving at FFO.

The tables below reconcile the same non-IFRS financial measures as previously reported to the revised figures as presently reported for the three months ended June 30, 2010 and the year ended December 31, 2010.

For The Three Months Ended June 30, 2010

($ Thousands)	FFO	NFFO	AFFO
As Previously Reported	**$ 24,664**	**$ 25,320**	**$ 22,733**
Adjustments:			
Elimination of Amortization of Direct Leasing Costs	15	15	15
Change in Calculation of Grant Date Fair Value Amortization of Unit-Based Compensation	153	153	–
As Presently Reported	**$ 24,832**	**$ 25,488**	**$ 22,748**

For The Year Ended December 31, 2010

($ Thousands)	FFO	NFFO	AFFO
As Previously Reported	**$ 85,089**	**$ 91,592**	**$ 81,453**
Adjustments:			
Elimination of Amortization of Direct Leasing Costs	71	71	71
Change in Calculation of Grant Date Fair Value Amortization of Unit-Based Compensation	364	364	–
As Presently Reported	**$ 85,524**	**$ 92,027**	**$ 81,524**

The following tables reconcile the impact of adopting IFRS on the consolidated statement of income with the calculation of some of CAPREIT's key non-IFRS financial measures for the three months ended June 30, 2010 and the year ended December 31, 2010.

For The Three Months Ended June 30, 2010 ($ Thousands)	**As Previously Reported**	Investment Properties	Exchangeable Units	Unit-based Compensation	**As Presently Reported**
Net Income	**$ 5,543**	$ 19,931	$ (370)	$ (1,519)	**$ 23,585**
Depreciation and Amortization	21,060	(20,759)	–	–	301
Unrealized Loss on Remeasurement of					
- Investment Properties	–	6,800	–	–	6,800
- Exchangeable Units	–	–	259	–	259
- Unit-based Compensation Liabilities	–	–	–	1,672	1,672
Interest on Exchangeable Units	–	–	111	–	111
Recovery of Deferred Income Taxes	(648)	(9,737)	–	–	(10,385)
(Gain) Loss on Disposition of Investment Properties	(1,291)	3,780	–	–	2,489
FFO	**$ 24,664**	$ 15	$ –	$ 153	**$ 24,832**
Unrealized Gain on Derivative Financial Instruments	(4)	–	–	–	(4)
Severance and Other Employee Costs	382	–	–	–	382
Amortization of Loss on Derivative Financial Instruments Included in Mortgage Interest	278	–	–	–	278
NFFO	**$ 25,320**	$ 15	$ –	$ 153	**$ 25,488**
Provision for Maintenance Property Capital Investments	(2,987)	–	–	–	(2,987)
Amortization of Fair Value on Grant Date of Unit-based Compensation	400	–	–	(153)	247
AFFO	**$ 22,733**	$ 15	$ –	$ –	**$ 22,748**

For The Year Ended December 31, 2010 ($ Thousands)	**As Previously Reported**	Investment Properties	Exchangeable Units	Unit-based Compensation	**As Presently Reported**
Net Income	**$ 63,321**	$ 473,219	$ (1,711)	$ (5,781)	**$ 529,048**
Depreciation and Amortization	84,811	(83,542)	–	–	1,269
Unrealized Loss on Remeasurement of					
- Investment Properties	–	(21,857)	–	–	(21,857)
- Exchangeable Units	–	–	1,267	–	1,267
- Unit-based Compensation Liabilities	–	–	–	6,145	6,145
Interest on Exchangeable Units	–	–	444	–	444
Recovery of Deferred Income Taxes	(51,355)	(384,378)	–	–	(435,733)
(Gain) Loss on Disposition of Investment Properties	(11,688)	16,629	–	–	4,941
FFO	**$ 85,089**	$ 71	$ –	$ 364	**$ 85,524**
Unrealized Loss on Derivative Financial Instruments	174	–	–	–	174
Net Loss on Natural Gas Contracts	4,497	–	–	–	4,497
Severance and Other Employee Costs	736	–	–	–	736
Amortization of Loss on Derivative Financial Instruments Included in Mortgage Interest	1,096	–	–	–	1,096
NFFO	**$ 91,592**	$ 71	$ –	$ 364	**$ 92,027**
Provision for Maintenance Property Capital Investments	(11,835)	–	–	–	(11,835)
Amortization of Fair Value on Grant Date of Unit-Based Compensation	1,696	–	–	(364)	1,332
AFFO	**$ 81,453**	$ 71	$ –	$ –	**$ 81,524**

SECTION IV

PROPERTY CAPITAL INVESTMENTS

CAPREIT capitalizes all capital investments related to the improvement of its properties. These investments have the objective of growing NOI in the future.

An important component of CAPREIT's property capital investment strategy is to acquire properties at values significantly below current replacement costs and improve their operating performance by investing annually in order to sustain and grow the portfolio's future rental income-generating potential over its useful life.

To achieve its property capital investment objectives, taking into account CAPREIT's acquisition history, the soft economic conditions and the availability of competitive pricing from construction trades, in 2009, CAPREIT formulated and embarked on a multi-year capital investment plan that accelerates spending on planned building improvement programs, including upgrading parking garages, balconies and other structural improvements. These investments are closely connected to CAPREIT's property acquisitions, many of which were anticipated at the time of such acquisitions and were included in the acquisition analysis, to ensure such transactions are accretive. Management believes these investments will increase the productive capacity, the useful economic life and the operating capabilities of CAPREIT's properties and enhance their future cash flow generating potential. Management also believes these building improvement programs, combined with existing suite improvement, common area and environment-friendly and energy-saving initiatives, will enable CAPREIT to reposition its portfolio and maintain high occupancy levels throughout any unfavourable economic conditions. These investments are expected to continue to increase average monthly rents while improving life safety and resident services. Management believes strategic investments taken at this time will position the portfolio for improved operating performance over the long term.

In the first six months of 2011, CAPREIT made property capital investments of $36.7 million as compared to $27.4 million for the same period last year. Property capital investments were higher compared to the prior year period primarily due to the acceleration of building improvement programs, and higher investments in suite improvements, common areas and equipment, which generally tend to increase NOI more quickly. The increased level of investments is in line with the revised capital investment plan for 2011 announced in the fourth quarter of 2010.

In addition, CAPREIT continues to invest in environment-friendly and energy-saving initiatives, including high-efficiency boilers, energy-efficient lighting systems, and water saving programs, which have permitted CAPREIT to mitigate potentially higher increases in utility and R&M costs and have improved overall portfolio NOI significantly as discussed in the Results of Operations section.

A breakdown of property capital investments (excluding head office assets, MHC land lease sites, tenant improvements and signage) is summarized by category below:

Property Capital Investments by Category

Six Months Ended June 30, ($ Thousands)	**2011**	**%**	**2010**	**%**
Building Improvements	**$ 16,521**	**45.0**	$ 11,817	43.1
Suite Improvements	**9,894**	**26.9**	7,734	28.2
Common Area	**4,658**	**12.7**	2,436	8.9
Energy-Saving Initiatives	**813**	**2.2**	1,657	6.0
Equipment	**3,366**	**9.2**	2,322	8.5
Boilers and Elevators	**793**	**2.2**	838	3.1
Appliances	**685**	**1.8**	600	2.2
Total	**$ 36,730**	**100.0**	$ 27,404	100.0

Based on a multi-year property capital investment plan, Management expects CAPREIT to complete property capital investments of approximately $115 million to $125 million during 2011, including approximately $13.5 million in investments in high-efficiency boilers and other energy-saving initiatives.

Set out in the table below is Management's current estimate, established through consultations with an independent engineering firm, of CAPREIT's investments in building improvements for 2011 through 2014 for properties owned as of December 31, 2010 and acquisitions to be completed by August 10, 2011. Building improvements represent the most significant category of property capital investment at present, but are expected to decline significantly in the coming years.

Future Investments in Building Improvements

Year Ending December 31	**Properties Held As At December 31, 2010**					**2011 Acquisitions**	
($ Thousands)			**Estimated Range**				**Estimate**
2011	$	58,000	–	$	62,000	$	12,000
2012	$	37,000	–	$	39,000	$	–
2013	$	32,000	–	$	37,000	$	–
2014	$	12,000	–	$	15,000	$	10,000

Excludes property capital investments in other categories, such as suite improvements and common area.

Management believes CAPREIT has sufficient liquidity and access to top up financing opportunities (see the Liquidity and Financial Condition section) to execute the above property capital investment strategy.

PRODUCTIVE CAPACITY

The primary focus of the following discussion is to differentiate between investments to maintain existing cash flows from the properties and investments incurred in order to achieve CAPREIT's longer term goals of enhanced cash flows and Unit distributions.

Maintenance property capital investments vary with market conditions, are partially related to suite turnover and are intended to maintain the earning capacity of the portfolio. Industry estimates for annual overall maintenance capital investments are approximately $450 per residential suite. These maintenance property capital investments are in addition to regular R&M costs, which have historically averaged in the range of $700 to $800 per residential suite annually and are expensed to NOI.

Stabilizing and value-enhancing property capital investments are focused on increasing the productivity of the property portfolio. These investments enhance operating effectiveness and profitability and increase revenues or reduce costs to improve NOI over the long term. In addition, they improve the economic life and value of the properties and are mainly long-term in nature.

Owing to the gross lease structure of its portfolio, CAPREIT does not distinguish its property capital investments between the two categories described above. Instead, CAPREIT uses industry guidelines for maintenance property capital investments to estimate its stabilizing and value-enhancing property capital investments as follows:

Six Months Ended June 30,		**2011**		**2010**
($ Thousands)				
Total Property Capital Investments [(1)]	$	**36,730**	$	27,404
Less: Estimated Maintenance Property Capital Investments [(2)]		**(5,963)**		(5,974)
Stabilizing and Value-Enhancing Capital Investments	$	**30,767**	$	21,430

(1) Excludes capital investments for head office assets, properties disposed as of June 30, MHC land lease sites, tenant improvements and signage.
(2) Based on an industry estimate of $450 per suite per year and the weighted average number of residential suites during the period.

Management believes its increased emphasis on targeted property capital investment programs for its property portfolio is yielding positive results, as significant benefits are being and are expected to continue to be, realized through maintaining high occupancy, increasing average monthly rents and reducing operating costs.

CAPITAL STRUCTURE

CAPREIT defines capital as the aggregate of Unitholders' equity, debt financing, liabilities associated with investment properties, Unit-based compensation liabilities and Exchangeable Units. CAPREIT's objectives when managing capital are to safeguard its ability to continue to fund distributions to Unitholders, to retain a portion to meet repayment obligations under its mortgages and credit facilities, and to ensure sufficient funds are available to meet capital commitments. Capital adequacy is monitored against investment and debt restrictions contained in CAPREIT's DOT and the Credit Facilities agreement.

CAPREIT's Credit Facilities (see Liquidity and Capital Resources) require compliance with the financial covenants shown in the table below. In addition, borrowings must not exceed the borrowing base, calculated as a predefined percentage of the fair value of the investment properties determined on an annual basis.

In the short term, CAPREIT utilizes the Acquisition and Operating Facility to finance its capital investments, which may include acquisitions. In the long term, equity issuances, mortgage financings and refinancings, including top ups, are put in place to finance the cumulative investment in the property portfolio and ensure the sources of financing better reflect the long-term useful lives of the underlying investments.

CAPREIT is in compliance with all the investment and debt restrictions and financial covenants contained in the DOT and in the Credit Facilities. The total capital managed by CAPREIT and the results of compliance with the key covenants are summarized below:

As at ($ Thousands)		**June 30, 2011**	**December 31, 2010**
Mortgages Payable		**$ 1,718,259**	$ 1,603,027
Bank Indebtedness		**145,010**	39,358
Liabilities Associated with Investment Properties		**56,568**	56,568
Unit-Based Compensation Liabilities		**21,587**	16,410
Exchangeable Units		**7,955**	7,050
Unitholders' Equity		**1,395,276**	1,355,445
Total Capital		**$ 3,344,655**	$ 3,077,858
	Threshold		
Total Debt to Gross Book Value (1)	Maximum 70.00%	**54.32%**	51.80% (2)
Total Debt to Gross Historical Cost (3)		**61.32%**	58.87% (2)
Tangible Net Worth (4)	Minimum $700,000	**$ 1,395,276**	$ 1,355,445 (2)
For the four quarters ended		**June 30, 2011**	**December 31, 2010**
Debt Service Coverage Ratio (times) (5)	Minimum 1.20	**1.34**	1.33 (2)
Interest Coverage Ratio (times) (6)	Minimum 1.50	**2.12**	2.07 (2)

(1) CAPREIT's DOT limits the maximum amount of total debt to 70% of the gross book value ("GBV") of CAPREIT's total assets. GBV is defined as the historical book value of CAPREIT's assets plus fair value adjustments plus accumulated amortization on property, plant and equipment and deferred loan costs. In addition, the DOT provides for investment restrictions on type and maximum limits on single property investments.
(2) For informational purposes, these financial ratios and tangible net worth, previously calculated under Canadian GAAP have been restated under IFRS.
(3) Based on the historical cost of investment properties.
(4) Tangible net worth is generally represented by Unitholders' equity and is defined as the sum of: i) Units issued; ii) contributed surplus; and iii) retained earnings after adding back the provision for deferred income taxes payable to a maximum limit of $100 million. As at December 31, 2010, this definition includes the sum of accumulated depreciation and amortization and, to a maximum of $50 million, deferred taxes payable on any capital stock based investment transactions.
(5) Debt service coverage ratio is defined as earnings before interest, depreciation, amortization, income taxes and other adjustments including non-cash costs ("EBITDA") less taxes paid divided by principal and interest payments.
(6) Interest coverage ratio is defined as EBITDA less taxes paid divided by interest payments.

LIQUIDITY AND FINANCIAL CONDITION

Liquidity and Capital Resources

Management ensures there is adequate overall liquidity by maintaining sufficient amounts of available credit facilities to fund maintenance and property capital investment commitments, distributions to Unitholders and to provide for future growth in its business. CAPREIT finances these commitments through: (i) cash flow from operating activities; (ii) mortgage debt secured by its investment properties; (iii) secured short-term debt financing with two Canadian chartered banks; and (iv) equity. Management's view of CAPREIT's liquidity position going forward continues to be stable based on its evaluation of capital resources as summarized below:

i) CAPREIT's operating business conditions continue to be stable and are expected to generate sufficient cash flow from operating activities to fund the current level of distributions. Management expects the combination of current level of funds reinvested from its DRIP, the retained portion of its annual NFFO, mortgage top ups and the available borrowing capacity on its Credit Facilities will be sufficient to fund its ongoing property capital investments. For the six months ended June 30, 2011, CAPREIT's NFFO payout ratio was 84.7% compared to 82.0% for the same period last year and the effective NFFO payout ratio was 65.8% compared to 70.2% for the prior year. Historically, CAPREIT has targeted a long-term annual NFFO payout ratio in the 85% to 90% range.

ii) Management believes CAPREIT is well positioned to meet its mortgage renewal and refinancing goals in 2011 due to the continuing availability of CMHC-insured financing. Management does not anticipate any material difficulties in completing the renewal of mortgages maturing for the remainder of 2011 of approximately $104.6 million, which have an effective interest rate of approximately 5.38%, and refinancing a significant portion of the approximately $26.1 million principal repayments remaining through 2011 with new mortgages at lower interest rates.

iii) Management has successfully renewed and amended CAPREIT's Credit Facilities aggregating to $280 million effective June 30, 2011, which comprise a revolving three-year Acquisition and Operating Facility of $270 million, subject to compliance with the various provisions of the Credit Facilities, in order to fund operations, acquisitions, capital improvements, letters of credit and other uses. In addition, the Land Lease Facility of $10 million was renewed for a one-year term maturing on June 30, 2012. Floating charge debentures on certain of CAPREIT's wholly-owned investment properties, which have been pledged as security, have been converted into fixed charges. In addition to a lower borrowing rate, the renewal agreement also includes amendments to CAPREIT's tangible net worth determination.

iv) On November 22, 2010, CAPREIT announced it had agreed to sell, subject to regulatory approval, 7,250,000 Units for $17.30 per Unit for aggregate gross proceeds of $125.4 million on a bought-deal basis with an over-allotment option. The transaction closed on December 10, 2010, and under the over-allotment option, 350,000 additional Units were issued on December 23, 2010. CAPREIT used the total net proceeds of the offering to repay a large portion of the borrowings under its Acquisition and Operating Facility. The additional capital is being used to finance acquisitions and property capital investments.

In order to maintain and enhance its CMHC-insured financing program, and consistent with CMHC's risk management practices involving large borrowers, CAPREIT entered into an agreement with CMHC (the "Large Borrower Agreement" or "LBA") in 2010. Other than improving the efficiency and consistency of such process, the LBA has not materially affected the manner in which CAPREIT conducts its business or its approach to mortgage financing. The LBA provides for, among other things:

i) Enhanced disclosure to CMHC;
ii) Certain financial covenants and limitations on indebtedness, none of which are inconsistent with CAPREIT's current operating policies;
iii) The posting of a revolving letter of credit with respect to certain capital expenditures on a portfolio, rather than an individual property basis; and
iv) Cross-collateralization of mortgage loans for certain CMHC-insured mortgage lenders.

The working capital deficiency as presented on CAPREIT's consolidated balance sheet as at June 30, 2011, which includes non-cash Unit-based compensation liabilities, is managed through the available liquidity under the Credit Facilities as well as the ongoing refinancing of mortgages payable.

The table below summarizes CAPREIT's bank indebtedness position as at June 30, 2011 and December 31, 2010:

As at ($ Thousands)	June 30, 2011	December 31, 2010
Acquisition and Operating Facility	**$ 270,000**	$ 270,000
Add: Cash and Cash Equivalents	**–**	4,350
Less: Bank Indebtedness	**(144,017)**	(38,000)
Letters of Credit and Other (1)	**(13,347)**	(12,805)
Available Borrowing Capacity	**$ 112,636**	$ 223,545
Weighted Average Floating Interest Rate	**3.98%**	3.95%
Land Lease Facility	**$ 10,000**	$ 10,000
Less: Bank Indebtedness	**(993)**	(1,358)
Letters of Credit	**(84)**	(84)
Available Borrowing Capacity	**$ 8,923**	$ 8,558
Weighted Average Floating Interest Rate	**4.06%**	4.17%

(1) Includes liabilities associated with hedging instruments.

CAPREIT's key liquidity metrics are summarized as follows:

As at June 30,	2011	2010
Mortgage Debt to Gross Book Value	**50.10%**	51.15%
Total Debt to Gross Book Value	**54.32%**	56.93%
Total Debt to Gross Historical Cost (1)	**61.32%**	63.84%
Total Debt to Total Capitalization	**55.33%**	62.79%
Debt Service Coverage Ratio (times) (2)	**1.34**	–
Interest Coverage Ratio (times) (2)	**2.12**	–
Weighted Average Mortgage Interest Rate (%) (3)	**4.66**	4.97
Weighted Average Mortgage Term to Maturity (years)	**5.3**	4.7

(1) Based on the historical cost of investment properties.
(2) Based on the trailing four quarters ended June 30, 2011. Prior year comparative ratios have not been restated under IFRS and are therefore not presented. Ratios calculated under Canadian GAAP are available in the MD&A issued for periods prior to 2011.
(3) Effective weighted average interest rate includes deferred financing costs and fair value adjustments but excludes the amortization of CMHC premiums. Including the amortization of the realized component of the loss on settlement of $9.9 million included in Accumulated Other Comprehensive Loss ("AOCL"), the effective portfolio weighted average interest rate at June 30, 2011 would be 4.74% (June 30, 2010 - 5.06%).

As at June 30, 2011, the overall leverage represented by the ratio of total debt to gross book value improved to 54.32%, as compared to 56.93% last year, mainly as a result of the repayment of a large portion of the Acquisition and Operating Facility with capital raised from the equity offering completed in December 2010. Due to the rise in CAPREIT's Unit price since June 30, 2010 and overall market capitalization, combined with the equity offering, as at June 30, 2011, CAPREIT's total debt improved to 55.33% of total market capitalization compared to 62.79% last year.

The effective portfolio weighted average interest rate has steadily declined from 4.97% as at June 30, 2010, to 4.66% as at June 30, 2011, which Management expects will result in significant interest rate savings in future years. Management believes that, as CAPREIT's refinancing plan continues to be implemented, there is scope to further reduce the effective portfolio weighted average interest rate based on current market conditions and despite recent and expected increases in interest rates in the medium term. Management is also focused on ensuring the portfolio weighted average term to maturity remains in the five-year range or longer and expects to gradually extend the term.

Mortgages Payable

CAPREIT takes a conservative approach and actively manages its mortgage portfolio to reduce interest costs while ensuring it is not overly exposed to interest rate volatility risk. Management takes a portfolio approach to its mortgage debt, proactively staggering maturities to reduce risk while taking advantage of the current low interest rate environment.

Currently, the risk free interest rates underlying mortgage financings are near historically low levels. This provided an opportunity for CAPREIT to reduce the risk of increased interest rates by entering into interest rate hedges on existing debt. CAPREIT entered into a hedging program to provide protection against potentially rising interest rates on approximately $312 million of mortgages maturing between September 2011 and June 2013. The maturing mortgages are expected to be refinanced on ten-year terms and are expected to bear interest rates between a floor rate of 3.00% and a maximum of 3.62%, before credit spread. This fixed interest rate range is well below the current weighted average interest rate on the maturing mortgages of approximately 5.20%, or 4.40% on an equivalent credit adjusted basis.

Based on the market data on forward-looking Government of Canada bonds yield curve, Management believes that yield rates will continue to increase over the next two years and there is a high probability that rates will rise above the fixed ceiling rate of 3.62% by the end of 2012; however, by entering into a hedging program to lock in interest rates while they are near historically low levels, Management expects to achieve long-term interest cost savings.

The stated portfolio weighted average interest rate including the expected impact of forward interest rate hedges on the approximately $312 million of mortgages maturing between September 2011 and June 2013 would range from 4.28% to 4.40%, compared to the current stated portfolio weighted average interest rate of 4.53% as at June 30, 2011. Also, the weighted average mortgage term to maturity for the portfolio with the 10-year term on the hedged forecasted refinancings would be 7.1 years, compared to the current weighted average mortgage term to maturity for the portfolio of 5.3 years.

CAPREIT focuses on multi-unit residential real estate, which is eligible for government-backed insurance for mortgages administered by CMHC, which benefits CAPREIT in two ways:

- CAPREIT obtains lower interest rate spreads for mortgage financing; and
- CAPREIT's overall renewal risk for mortgage refinancings is reduced as the mortgage insurance premium is transferable between approved lenders and is effective for the full amortization period of the underlying mortgage ranging between 25 to 35 years.

At June 30, 2011, 96.2% (June 30, 2010 – 94.4%) of CAPREIT's mortgage portfolio is CMHC-insured (excluding the mortgage on the MHC land lease sites portfolio) and 97.4% (June 30, 2010 – 98.3%) of CAPREIT's mortgage portfolio bears fixed rates of interest.

The following table summarizes the changes in the mortgage portfolio during the periods:

As at June 30, ($ Thousands)		**2011**	2010
Balance, Beginning of Period		**$ 1,603,027**	$ 1,517,206
Add:	New Borrowings	**120,080**	22,165
	Assumed	**–**	22,652
	Refinanced	**151,249**	69,734
Less:	Mortgage Repayments	**(25,240)**	(24,140)
	Mortgages Matured	**(124,908)**	(28,014)
	Mortgages Repaid on Disposition of Investment Property	**(2,117)**	(5,940)
	Deferred Financing Costs, Fair Value Adjustments and CMHC Premiums, net	**(3,832)**	(706)
Balance, End of Period		**$ 1,718,259**	$ 1,572,957

The following table presents the refinancings and mortgage top ups closed or committed up to August 9, 2011, as well as those expected for the remainder of 2011. Management expects to raise between $275 million and $300 million in total mortgage renewals and refinancings for 2011.

($ Thousands)		Original Mortgage Amount	Original Interest Rate (1)		New Mortgage Amount	New Interest Rate (1)	Weighted Average Term on New Mortgage (Yrs)		Top Up Financing Amount
First Quarter	$	87,964	4.70%	$	98,339	3.44%	5.4	$	10,375
Second Quarter		36,944	5.68%		52,910	3.94%	10.0		15,966
Total and Weighted Average	$	124,908	4.99%	$	151,249	3.61%	7.0	$	26,341
Subsequent to June 30, 2011:									
Committed or Completed (2)		21,508	5.77%		21,508	3.44%	9.3		–
Expected for the Remainder of 2011		84,000	5.48%		113,000 (3)	(4)	(4)		29,000
Total and Weighted Average	$	230,416	5.24%	$	285,757	3.59%	7.3	$	55,341

(1) Weighted average.
(2) Excludes the impact of the hedge agreement entered in June 2011 for mortgages maturing in future periods.
(3) Excludes CMHC financing costs.
(4) $71.6 million of mortgages maturing between July 1, 2011 and December 31, 2011 have been hedged and are expected to be refinanced on ten-year terms bearing interest rates between 3.80% and 4.40% (see Mortgages Payable above).

For purposes of estimating top up financing potential, the following table provides the NOI for those properties with mortgages maturing over the next five years and beyond. A property's full NOI is included in the first year in which a mortgage matures. The balance of mortgages remaining on the same property but maturing in other years is also shown. Based on this mortgage maturity profile, Management believes it will be in a position to achieve its mortgage renewal and refinancing plan for 2011.

As at June 30, 2011

($ Thousands)

Year of Maturity		Mortgage Maturities (1)		Mortgages on the Same Properties Maturing in Other Years (1)		Total Mortgages		NOI of Properties with Maturing Mortgage(s) (2)
2011	$	104,620	$	24,326	$	128,946	$	16,381
2012		220,324		2,764		223,088		27,916
2013		173,169		46,303		219,472		32,546
2014		225,137		151		225,288		30,636
2015		134,099		16,868		150,967		18,271
2016 onward		563,080		(90,412)		472,668		68,626
Total	$	1,420,429	$	–	$	1,420,429	$	194,376

(1) Mortgage balance due upon maturity.
(2) NOI for 12 months ended June 30, 2011.

The breakdown of future principal repayments, including mortgage maturities, and effective weighted average interest rates as at June 30, 2011, is as follows:

($ Thousands) Period		Principal Repayments		Mortgage Maturities		Mortgage Balance	% of Total Mortgage Balance	Interest Rate (%) (1)
Remaining months in 2011	$	26,123	$	104,620	$	130,743	7.4	5.38
2012		48,730		220,324		269,054	15.3	5.09
2013		44,492		173,169		217,661	12.4	4.66
2014		36,450		225,137		261,587	14.9	4.17
2015		32,183		134,099		166,282	9.5	3.83
2016		27,366		47,094		74,460	4.2	4.98
2017		24,321		100,285		124,606	7.1	4.74
2018		23,951		52,234		76,185	4.3	4.69
2019		21,943		82,760		104,703	6.0	5.15
2020		19,370		54,648		74,018	4.2	4.66
2021 – 2025		30,595		222,364		252,959	14.4	4.59
2026 onward		1,507		3,695		5,202	0.3	5.15
Total	**$**	**337,031**	**$**	**1,420,429**	**$**	**1,757,460**	**100.0**	**4.66** (2)
Deferred financing costs, fair value adjustments and CMHC premiums, net						(39,201)		
Total					**$**	**1,718,259**		

(1) Effective weighted average interest rates for maturing mortgages only.

(2) Effective weighted average interest rate includes deferred financing costs and fair value adjustments but excludes CMHC premiums. Including the amortization of the realized component of the loss on settlement of $9.9 million included in AOCL, the effective portfolio weighted average interest rate at June 30, 2011 would be 4.74% (June 30, 2010 - 5.06%).

To ensure CAPREIT is not overly exposed to interest rate volatility risk, Management has been successful in staggering the maturity dates within its mortgage portfolio.

To reduce its interest cost and cost of capital, Management will continue to leverage its balance sheet strength and the stability of its property portfolio to fund acquisitions and its capital investment plan, and to refinance its mortgage principal repayments.

Unitholders' Equity and Units Awarded Under Unit-Based Compensation Plans

As previously discussed, under IFRS, unit capital included in Unitholders' Equity only represents the issued and outstanding Trust Units, and excludes the Exchangeable Units and any Units issued in connection with Unit-based incentive plans. For the purposes of the discussion below, Exchangeable Units and Units issued in connection with Unit-based incentive plans are treated as equity as they have claims similar or identical to those of the Trust Units.

On December 10, 2010, CAPREIT issued 7,250,000 Units at $17.30 per Unit on a bought-deal basis for aggregate gross proceeds of $125.4 million. On December 23, 2010, the over-allotment option was exercised and 350,000 additional Units were issued at $17.30 per Unit for aggregate gross proceeds of $6.1 million. The net proceeds of $125.3 million were used to repay a large portion of the borrowings on the Acquisition and Operating Facility.

CAPREIT's market capitalization as at June 30, 2011 was $1,504 million and the total number of Units outstanding were 77,773,570 (including 2,340,841 LTIP and SELTIP Units, 92,178 Deferred Units, 166,052 RURs and 411,311 Exchangeable Units), of which trustees, officers and other senior managers owned approximately 4.7%. As of June 30, 2011, 453,500 options to acquire Trust Units were outstanding and exercisable.

In 2010, CAPREIT introduced the RUR plan as the primary plan through which future long-term incentive compensation will be awarded. The Compensation and Governance Committee of the Board of Trustees may award RURs, subject to the attainment of specified performance objectives, to certain officers and key employees (collectively, "Participants"). The purpose of the RUR plan is to provide Participants with additional incentive and to further align the interests of Participants with Unitholders. Upon vesting, RURs are exercisable for Units issued from treasury. For a detailed description of the plan as well as the awards granted and the Unit-based compensation costs incurred see note 16 to the accompanying unaudited consolidated interim financial statements.

In February 2010, the President and CEO's employment agreement was amended such that options are to be awarded to acquire three percent (3%) of the number of Units issued by CAPREIT pursuant to any equity offering or acquisition transaction at the then market price and in accordance with the terms of the UOP. In December 2010, in connection with the equity offering and the exercise of the over-allotment option, a total of 228,000 Unit Options under the UOP were granted to the President and CEO at an exercise price of $17.30 with an expiration of December 2020.

Normal Course Issuer Bid

Each year, CAPREIT obtains approval from the TSX for a normal course issuer bid ("NCIB") to acquire up to 10% of CAPREIT's public float at the time of approval, at market prices over a 12-month period. Purchases are made through the facilities of the TSX and any Trust Units purchased by CAPREIT are cancelled. CAPREIT believes the ongoing purchase of its outstanding Units may be an appropriate use of its resources from time to time and can provide liquidity to Unitholders who desire to sell their Units.

The table below summarizes the NCIBs in place since January 1, 2010. No Trust Units were acquired and cancelled under these NCIBs.

Period Covered Under Each NCIB	Approval Limit
June 25, 2009 to June 24, 2010	6,344,344
June 25, 2010 to June 24, 2011	6,425,179
June 27, 2011 to June 26, 2012	7,267,915

SECTION V

SELECTED CONSOLIDATED QUARTERLY INFORMATION

		Q2 11	Q1 11	Q4 10	Q3 10	Q2 10	Q1 10	Q4 09 (2)	Q3 09 (2)
Overall Portfolio AMR		$ 982	$ 978	$ 979	$ 977	$ 958	$ 943	$ 943	$ 943
Operating Revenues (000s)(1)		$ 88,235	$ 86,332	$ 85,629	$ 85,057	$ 84,755	$ 83,518	$ 81,329	$ 80,521
NOI (000s)(1)		$ 51,991	$ 46,564	$ 46,592	$ 49,906	$ 50,199	$ 43,643	$ 43,790	$ 46,437
NOI Margin (1)		58.9%	53.9%	54.4%	58.7%	59.2%	52.3%	53.8%	57.7%
Net Income (000s)		$ 57,173	$ 9,663	$ 477,208	$ 17,585	$ 23,585	$ 10,672	$ 10,192	$ 950
FFO (000s)		$ 26,591	$ 22,132	$ 20,723	$ 24,885	$ 24,832	$ 15,084	$ 20,639	$ 21,059
NFFO (000s)		$ 26,848	$ 22,552	$ 21,253	$ 25,227	$ 25,488	$ 20,059	$ 20,178	$ 23,581
Total Debt to Gross Book Value		54.32%	52.28%	51.80%	56.64%	56.93%	57.28%	62.75%	62.97%
FFO Per Unit	- Basic	$ 0.354	$ 0.296	$ 0.302	$ 0.373	$ 0.373	$ 0.227	$ 0.311	$ 0.319
NFFO Per Unit	- Basic	$ 0.357	$ 0.301	$ 0.309	$ 0.378	$ 0.383	$ 0.302	$ 0.305	$ 0.357
Weighted Average Units	- Basic	75,143	74,844	68,729	66,762	66,585	66,423	66,262	66,086
	- Diluted	76,048	75,586	69,380	67,287	66,921	66,665	66,416	66,208

(1) Includes the results of investment properties owned as at the respective period end.
(2) Not restated for IFRS.
Non-IFRS financial measures are reconciled with IFRS reported amounts in the respective quarterly SEDAR filings.

CAPREIT's operations are affected by seasonal cycles, and operating performance in one quarter may not be indicative of operating performance in any other quarter of the year. The fourth and first quarters of each year tend to typically generate weaker performance due to increased energy consumption in the winter months.

SECTION VI

ACCOUNTING POLICIES AND CRITICAL ESTIMATES

Accounting Policies and New Accounting Standards

CAPREIT adopted IFRS effective January 1, 2010 and the full impact of the change from Canadian GAAP to IFRS is described in the Adoption of IFRS section in addition to the comprehensive discussion under the International Financial Reporting Standards section of the MD&A contained in CAPREIT's 2010 Annual Report.

As of August 9, 2011, the following new or amended IFRS have been issued by the International Accounting Standards Board ("IASB") and are expected to apply for fiscal periods beginning after December 31, 2011: IFRS 1, First-time Adoption of International Financial Reporting Standards; IFRS 7, Financial Instruments: Disclosures; IFRS 9, Financial Instruments; IFRS 10, Consolidated Financial Statements; IFRS 11, Joint Arrangements; IFRS 12, Disclosure of Interests in Other Entities; IFRS 13, Fair Value Measurement; IAS 1, Financial Statement Presentation; and IAS 12, Income Taxes.

Amendments to IFRS 1, effective for fiscal periods after July 2011 with earlier adoption permitted, relate to severe hyperinflation environment as well as remove fixed dates for first-time adopters. Amendments to IFRS 7 relate to disclosures with respect to the transfers of financial assets. IFRS 9 replaces IAS 39 and introduces new requirements for the classification and measurement of financial assets, to be measured at either amortized cost or fair value. IFRS 7 and IFRS 9 are effective for fiscal periods beginning July 2011 and January 2013, respectively. The amendments to IAS 12, effective beginning 2012, provide a solution to the issue of assessing whether the recovery of the carrying value of an

asset will be through use or through sale when the asset is measured using the fair value model. The amendment introduces the presumption that recovery of the carrying amount will, normally be through sale.

The amendments to IAS 1, intended to improve how components of other comprehensive income are presented, are effective for fiscal periods beginning after July 1, 2012. IFRS 13, which defines fair value, sets out in a single IFRS a framework for measuring fair value and requires disclosures about fair value measurements when other IFRS require or permit fair value measurements. The new standard does not introduce any new requirements to measure an asset or a liability at fair value, change what is measured at fair value or address how to present changes in fair value. IFRS 13 is effective beginning 2013, with earlier application permitted. Management is assessing the impact of the above amendments but does not expect CAPREIT to be significantly impacted upon adoption in their current form.

IFRS 10 provides a single consolidation model that identifies control as the basis for consolidation for all types of entities and replaces IAS 27, Consolidated and Separate Financial Statements and SIC-12, Consolidation of Special Purpose Entities. IFRS 11 establishes principles for the financial reporting by parties to a joint arrangement and supersedes IAS 31, Interests in Joint Ventures and SIC-13, Jointly Controlled Entities. IFRS 12 combines, enhances and replaces the disclosure requirements for subsidiaries, joint arrangements, associates and unconsolidated structured entities. The new requirements are effective beginning 2013, with earlier application permitted. Under these new joint arrangement standards, some or all of CAPREIT's co-ownership arrangements will be accounted for using the equity method and not proportionate consolidation as at present.

Critical Estimates

In preparing the accompanying unaudited consolidated interim financial statements in accordance with IFRS, certain accounting policies require the use of estimates, assumptions and judgment that in some cases relate to matters that are inherently uncertain, and which affect the amounts reported in the unaudited consolidated interim financial statements and accompanying notes. Areas of such estimation include, but are not limited to: valuation of investment properties, remeasurement at fair value of financial instruments, valuation of accounts receivable, capitalization of costs, accounting accruals, the amortization of certain assets, accounting for deferred income taxes and Unit-based compensation liabilities. Changes to estimates and assumptions may affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the unaudited consolidated interim financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could also differ from those estimates under different assumptions and conditions.

Management believes the nature of the business and CAPREIT's portfolio is defensive against economic downturns and, therefore, the current economic conditions have not had as significant an impact on CAPREIT's critical accounting estimates as may have been realized in other industries. However, the current economic conditions impacting the general economy or those more specific to the housing industry or to CAPREIT could have the potential to alter accounting estimates and could impact CAPREIT's financial condition, changes in financial condition or results of operations. Disclosures in the MD&A, including specifically the Property Portfolio, Results of Operations, Property Capital Investments, Liquidity and Financial Condition and Future Outlook sections, outline the risks and both the positive and negative impacts on CAPREIT's performance that have resulted, or may in the future result, from the unusual economic conditions.

In the three and six months ended June 30, 2011, there were notable changes in the types of assumptions and the nature of estimates deemed by Management to be significant to CAPREIT as a result of the adoption of IFRS. Estimates deemed by Management to be more significant, due to subjectivity, are discussed below.

Valuation of Investment Properties

Investment properties are measured at fair value as at the balance sheet date. Any changes in the fair value are included in the consolidated statements of income and comprehensive income. Fair values are supported by independent external valuations or detailed internal valuations using market-based assumptions, each in accordance with recognized valuation techniques. The techniques used comprise both the capitalized net operating income method and the discounted cash flow method and include estimating, among other things, future stabilized net operating income, capitalization rates, reversionary capitalization rates, discount rates and other future cash flows applicable to investment properties.

In the case of Leasehold Interests, CAPREIT established the fair value of such interests using the discounted cash flow method excluding any future lease payments. A separate liability was recognized for the present value of future lease

payments related to these Leasehold Interests. Management's internal assessments of fair value are based on a combination of internal financial information and external market data including components of net operating income and capitalization rates, all of which are obtained from an independent appraiser.

Management's internal valuations and the independent appraisals are both subject to significant judgment, estimates and assumptions about market conditions in effect as at the balance sheet date. See note 9 to the accompanying unaudited consolidated interim financial statements for a detailed discussion of valuation methods and the significant assumptions and estimates used.

Valuation of Unit-based Compensation Liabilities

The fair value of Unit-based compensation liabilities is based on assumptions of future events and involves significant estimates. The basis of valuation for CAPREIT's Unit-based compensation liabilities, such as market assumptions, estimates and valuation methodology, is set out in note 16 to the accompanying unaudited consolidated interim financial statements; however, the fair values as at the reporting date may differ materially from how they are ultimately recognized if there is volatility in Trust Unit prices, interest rates or other key assumptions in future periods.

Valuation of Derivative Financial Instruments

The fair value of a derivative financial instrument is based on assumptions of future events and involves significant estimates. The basis of valuation for CAPREIT's derivatives is set out in note 17 to the accompanying unaudited consolidated interim financial statements; however, the fair values of derivatives reported may differ from how they are ultimately recognized if there is volatility in interest rates or energy prices in future periods.

ADOPTION OF IFRS

As outlined earlier, CAPREIT adopted IFRS for financial reporting purposes with effect from January 1, 2010. The change from Canadian GAAP to IFRS had a significant impact on certain components of CAPREIT's consolidated balance sheets and consolidated statements of income and comprehensive income, as well as to the presentation of the consolidated statement of cash flows as a result of necessary reclassifications under IFRS. In addition to the disclosures in notes 4 and 5 in the accompanying unaudited consolidated interim financial statements, discussed below are further details of the impact of IFRS on CAPREIT's financial results. This section should be read in conjunction with the disclosures in the International Financial Reporting Standards section of the MD&A contained in CAPREIT's 2010 Annual Report.

Consolidated Balance Sheet

The following tables quantify the impact of the significant differences, with the exception of current and non-current classifications, between Canadian GAAP and IFRS on CAPREIT's consolidated balance sheets as at January 1, 2010 and December 31, 2010:

As at January 1, 2010 ($ Thousands)	**Canadian GAAP**	Investment Properties	Exchangeable Units	Unit-Based Compensation	Other Adjustments	**IFRS**
Assets						
Investment Properties	$ 2,207,806	$ 746,921	$ –	$ –	$ (3,080)	$ 2,951,647
Other Assets	71,973	(2,236)	–	–	(25,029)	44,708
Total Assets	$ 2,279,779	$ 744,685	$ –	$ –	$ (28,109)	$ 2,996,355
Liabilities						
Liabilities Associated with Investment Properties	$ –	$ 50,662	$ –	$ –	$ –	$ 50,662
Mortgages Payable	1,545,315	–	–	–	(28,109)	1,517,206
Bank Indebtedness	146,891	–	–	–	–	146,891
Unit-based Compensation Liabilities	–	–	–	10,077	–	10,077
Deferred Income Tax Liability	54,059	386,448	–	–	–	440,507
Other Liabilities	51,515	(192)	37	–	224	51,584
Security Deposits	18,624	–	–	–	–	18,624
Exchangeable Units	–	–	5,783	–	–	5,783
Distributions Payable	6,191	–	(37)	–	(224)	5,930
Total Liabilities	$ 1,822,595	$ 436,918	$ 5,783	$ 10,077	$ (28,109)	$ 2,247,264
Unitholders' Equity						
Unit Capital	$ 889,237	$ –	$ (8,000)	$ (10,163)	$ –	$ 871,074
Retained Earnings (Deficit)	(409,699)	309,837	2,217	86	–	(97,559)
AOCL	(22,354)	(2,070)	–	–	–	(24,424)
Total Untiholders' Equity	$ 457,184	$ 307,767	$ (5,783)	$ (10,077)	$ –	$ 749,091
Total Liabilities and Equity	$ 2,279,779	$ 744,685	$ –	$ –	$ (28,109)	$ 2,996,355

As at December 31, 2010 ($ Thousands)	**Canadian GAAP**	Investment Properties	Exchangeable Units	Unit-Based Compensation	Other Adjustments	**IFRS**
Assets						
Investment Properties	$ 2,267,859	$ 842,073	$ –	$ –	$ (3,384)	$ 3,106,548
Other Assets	85,561	(2,662)	–	–	(27,450)	55,449
Total Assets	$ 2,353,420	$ 839,411	$ –	$ –	$ (30,834)	$ 3,161,997
Liabilities						
Liabilities Associated with Investment Properties	$ –	$ 56,568	$ –	$ –	$ –	$ 56,568
Mortgages Payable	1,633,861	–	–	–	(30,834)	1,603,027
Bank Indebtedness	39,358	–	–	–	–	39,358
Unit-based Compensation Liabilities	–	–	–	16,410	–	16,410
Other Liabilities	58,194	(214)	37	–	217	58,234
Security Deposits	19,227	–	–	–	–	19,227
Exchangeable Units	–	–	7,050	–	–	7,050
Distributions Payable	6,932	–	(37)	–	(217)	6,678
Total Liabilities	$ 1,757,572	$ 56,354	$ 7,050	$ 16,410	$ (30,834)	$ 1,806,552
Unitholders' Equity						
Unit Capital	$ 1,027,156	$ –	$ (8,000)	$ (11,885)	$ –	$ 1,007,271
Retained (Deficit) Earnings	(420,223)	783,057	950	(4,525)	–	359,259
AOCL	(11,085)	–	–	–	–	(11,085)
Total Unitholders' Equity	$ 595,848	$ 783,057	$ (7,050)	$ (16,410)	$ –	$ 1,355,445
Total Liabilities and Equity	$ 2,353,420	$ 839,411	$ –	$ –	$ (30,834)	$ 3,161,997

Investment Properties

Under Canadian GAAP, investment properties were identified as income properties and were presented at historical cost less accumulated depreciation. Under IFRS, investment properties are those properties held to earn rental income, for capital appreciation or both, and are initially recognized at cost. Subsequent to initial recognition, CAPREIT has elected to measure its investment properties using the fair value model instead of the cost model. As a result, changes in fair value are recognized for each reporting period in the consolidated statement of income. Additionally, corporate head office assets, such as leasehold improvements, corporate and information technology systems, are disclosed in the notes to the accompanying unaudited consolidated interim balance sheets under property, plant and equipment.

As a result of the use of the fair value model, there is a material increase in the carrying value of the investment properties as compared to Canadian GAAP. This translates into an equivalent increase in retained earnings at each reporting date. Marking-to-market resulted in a carrying value, net of the associated liabilities, for CAPREIT's investment properties of approximately $2,901 million as at January 1, 2010, which is approximately $693 million greater than the depreciated cost of $2,208 million reported under Canadian GAAP. As at December 31, 2010, marking-to-market resulted in a carrying value, net of the associated liabilities, for the investment properties of approximately $3,050 million, or approximately $782 million greater than the depreciated cost of $2,268 million reported under Canadian GAAP. With the relative increase in the value of the assets to the liabilities, which did not increase as significantly, certain of CAPREIT's leverage ratios are favourably impacted as a result of the adoption of IFRS.

Additionally, CAPREIT has separately disclosed the fair value of its liability associated with remaining minimum lease payments on the land leasehold interests.

Under IFRS, straight-line rent, direct leasing costs and tenant inducements balances will be included in the carrying amounts of investment properties and the intangible assets and liabilities previously recognized under Canadian GAAP in connection with business combinations are no longer separately recognized under IFRS from the associated investment property.

The increase in the carrying value of CAPREIT's investment properties of approximately $693 million under IFRS from applying the fair value model results in an associated increase in the deferred tax liability as at January 1, 2010 and June 30, 2010 due to the larger timing differences between the carrying values and the tax bases on the respective reporting dates. Under IFRS, the timing difference is calculated using the income tax rate applicable to inter vivos trusts such as CAPREIT as opposed to the SIFT tax rate that was used in calculating the deferred income tax liability under Canadian GAAP.

As discussed under the Net Income section, CAPREIT satisfied the REIT Exception under the SIFT Rules in the fourth quarter of 2010 and thus is not presently liable for income tax under Part I of the Income Tax Act. The deferred tax liability under IFRS was reversed in the fourth quarter of 2010.

Exchangeable Units

Exchangeable Units, categorized under Canadian GAAP as equity, are considered a financial liability under IFRS. As these Units are considered to have embedded derivatives, CAPREIT has reported these Exchangeable Units at their amortized cost, which approximates their fair value, at each reporting date. At the date of transition, an adjustment to opening retained earnings for the difference between cost and fair value at the transition date has been recognized and the cumulative distributions on these Exchangeable Units have been reclassified from equity to retained earnings.

Unit-Based Compensation Financial Liabilities

Under Canadian GAAP, all of CAPREIT's Unit-based incentive plans compensation was accounted for as equity-based instruments upon issuance and included in Unitholders' equity with their associated fair value on the grant date amortized over the respective vesting periods and included in the consolidated statement of income. Under IFRS, by virtue of the redemption clause associated with CAPREIT's Trust Units, Unit-based awards that remain unsettled are deemed financial liabilities and not equity, and must be reported as liabilities at fair value on each reporting date with resulting gains or losses recognized in the consolidated statement of income for the period. At the date of transition, a cumulative adjustment to opening retained earnings was recognized for the difference between the cost, including cumulative distributions on Unit-based incentive awards, and the fair value of these awards at the transition date.

Consolidated Statement of Income

The following table and discussion quantifies and describes the impact of significant differences between Canadian GAAP and IFRS on CAPREIT's consolidated statements of income.

For The Three Months Ended June 30, 2010 ($ Thousands)	**Canadian GAAP**	Investment Properties	Exchangeable Units	Unit-Based Compensation	Other	**IFRS**
Revenue from Investment Properties	**$ 84,776**	$ (21)	$ –	$ –	$ –	**$ 84,755**
Realty Taxes	(10,973)	–	–	–	–	(10,973)
Property Operating Costs	(23,594)	11	–	–	–	(23,583)
Net Operating Income	**$ 50,209**	$ (10)	$ –	$ –	$ –	**$ 50,199**
Trust Expenses	(3,651)	–	–	407	–	(3,244)
Fair Value Adjustment - Investment Properties	–	(6,800)	–	–	–	(6,800)
Realized Gain (Loss) on Dispositions	1,291	(3,780)	–	–	–	(2,489)
Fair Value Adjustment - Exchangeable Units	–	–	(259)	–	–	(259)
Unit-based Compensation Costs	–		–	(1,926)	–	(1,926)
Interest on Mortgages Payable	(19,447)	–	–	–	(342)	(19,789)
Interest on Bank Indebtedness	(1,808)	–	–	–	–	(1,808)
Interest on Exchangeable Units	–	–	(111)	–	–	(111)
Other Income	463	–	–	–	–	463
Severance and Other Employee Costs	(382)	–	–	–	–	(382)
Depreciation	(20,904)	20,904	–	–	–	–
Amortization	(880)	(120)	–	–	342	(658)
Unrealized Loss on Derivatives	4	–	–	–	–	4
Recovery of Deferred Income Taxes	648	9,737	–	–	–	10,385
Net Income	**$ 5,543**	$ 19,931	$ (370)	$ (1,519)	$ –	**$ 23,585**

For The Year Ended December 31, 2010 ($ Thousands)	**Canadian GAAP (1)**	Investment Properties	Exchangeable Units	Unit-Based Compensation	Other	**IFRS**
Revenue from Investment Properties	**$ 339,023**	$ (64)	$ –	$ –	$ –	**$ 338,959**
Realty Taxes	(43,438)	–	–	–	–	(43,438)
Property Operating Costs	(105,234)	52	–	–	–	(105,182)
Net Operating Income	**$ 190,351**	$ (12)	$ –	$ –	$ –	**$ 190,339**
Trust Expenses	(14,012)	–	–	1,721	–	(12,291)
Fair Value Adjustment - Investment Properties	–	21,858	–	–	–	21,858
Realized Gain (Loss) on Dispositions	11,688	(16,629)	–	–	–	(4,941)
Fair Value Adjustment - Exchangeable Units	–	–	(1,267)	–	–	(1,267)
Unit-based Compensation Costs	–	–	–	(7,502)	–	(7,502)
Interest on Mortgages Payable	(78,068)	–	–	–	(2,032)	(80,100)
Interest on Bank Indebtedness	(6,304)	–	–	–	–	(6,304)
Interest on Exchangeable Units	-	–	(444)	–	–	(444)
Other Income	1,854	–	–	–	–	1,854
Net Loss on Natural Gas Contracts	(4,497)	–	–	–	–	(4,497)
Severance and Other Employee Costs	(736)	–	–	–	–	(736)
Depreciation	(83,999)	83,999	–	–	–	-
Amortization	(4,137)	(375)	–	–	2,032	(2,480)
Unrealized Loss on Derivatives	(174)	–	–	–	–	(174)
Recovery of Deferred Income Taxes	51,355	384,378	–	–	–	435,733
Net Income	**$ 63,321**	$ 473,219	$ (1,711)	$ (5,781)	$ –	**$ 529,048**

(1) Includes results of operations of all properties including those disposed during the year.

Investment Properties

The measurement of investment properties using the fair value model requires the recognition in the consolidated statement of income of an unrealized gain or loss arising from a change in the fair value of investment properties in the period. Also, under the fair value model, depreciation of investment properties is not recorded nor is amortization of the historic intangible balances established under Canadian GAAP in respect of business combinations, all of which are no longer to be separately recognized and, accordingly, not amortized under IFRS. As a result, CAPREIT recorded an unrealized loss on the remeasurement of its investment properties for the three and six months ended June 30, 2010 and an unrealized gain for the year ended December 31, 2010. As well, depreciation and amortization recorded under Canadian GAAP was eliminated and there was a corresponding increase in net income as a result.

Exchangeable Units

As a result of the classification of Exchangeable Units as financial liabilities, distributions on these Units are now reported as interest expense instead of accounted for as a component of Equity. Additionally, the impact of the remeasurement at fair value of these Units subsequent to the transition date is recognized in the consolidated statement of income for the period.

Unit-based Compensation Liabilities

The effect of awards under Unit-based compensation plans being deemed liabilities under IFRS has the following significant impacts on the statement of income:

i) *Amortization of grant date fair value*: under IFRS, where a grant comprises separate tranches identified by distinct vesting dates, each tranche is deemed a separate grant, and the fair value of each tranche is amortized over its distinct vesting period. Under Canadian GAAP, the fair value of Unit-based compensation were amortized on a combined straight-line basis over the vesting period. This change in amortization methodology increases the amount of Unit-based compensation expense recognized in the initial year of grant and in the earlier portion of the vesting period compared under Canadian GAAP.

ii) *Fair value remeasurement of awards that remain unsettled*: the recognition of the underlying Trust Units as financial liabilities for the purpose of Unit-based compensation necessitates the remeasurement at fair value of all unsettled award Units at each reporting date. Additionally, remeasurement at fair value takes into account the additional impact of distributions on the original awards, which were not required to be expensed under Canadian GAAP.

iii) *Distributions earned/reinvested*: under the RUR Plan and the DUP distribution units are reported at fair value and accounted for as part of Unit-based compensation expense whereas under Canadian GAAP they were accounted for as regular distributions.

iv) *Forfeitures*: under IFRS, expected forfeitures are required to be estimated and recognized in the current period, with revisions for actual forfeitures in subsequent periods; however, under Canadian GAAP, forfeitures were recognized as they occurred. Based on historical trends, Management does not expect estimates of forfeitures to have a significant impact on Unit-based compensation expense.

Key Financial Covenants

The key covenants under CAPREIT's DOT and Credit Facilities have also been affected by the adoption of IFRS and are discussed below.

Declaration of Trust

The pro forma total debt to gross book value leverage ratio as of January 1, 2010 improves to 55.42% based on carrying values under IFRS compared to CAPREIT's stated leverage ratio of 62.75% based on carrying values under Canadian GAAP. Similarly, the pro forma leverage ratio as of December 31, 2010 improves to 51.80% based on carrying values under IFRS compared to 58.87% based on carrying values under Canadian GAAP. These ratios are well below the borrowing restrictions under the DOT, which requires the total debt to gross book value ratio not to exceed 70%. Management does not expect to change its historical strategy regarding leverage as a result of the increased room available under the revised metrics and continues to provide a historical cost basis for investors.

Credit Facilities

Under the current definition of EBITDA as defined in the Credit Facilities, all significant impacts of the adoption of IFRS as noted above are accounted for and, therefore, no amendments are needed to the calculation of EBITDA. At present, the various fair value adjustments as described above, as well as certain other non-cash or unusual items, are excluded from the definition of EBITDA per the Credit Facilities agreement and, consequently, the adoption of IFRS has not had a significant impact on Debt Service and Interest Coverage ratios (see the Capital Structure section).

While the definition of Tangible Net Worth was originally amended in the Credit Facilities agreement of 2010 in light of the changes expected under IFRS, further clarifying amendments have been incorporated in the definition in the latest renewal agreement effective July 1, 2011. When reporting under Canadian GAAP, the sum of accumulated depreciation and amortization was added back to Unitholders' Equity, while under IFRS, Unitholders' Equity takes into account investment properties at fair value and therefore mitigates the effect of not adding back accumulated depreciation and amortization. Under IFRS, Tangible Net Worth is generally equal to Unitholders' Equity adjusted for any deferred income tax liability of up to $100 million. Additionally, the Tangible Net Worth definition under the Credit Facilities agreement effective July 1, 2011, further adjusts for the Exchangeable Units liability and Unit-based compensation financial liabilities. The required minimum Tangible Net Worth of $700 million remains unchanged.

CONTROLS AND PROCEDURES

CAPREIT maintains appropriate information systems, procedures and controls to provide reasonable assurance that information disclosed externally is complete, reliable and timely. Pursuant to the Canadian Securities Administrators requirements under National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings, CAPREIT's President and CEO and the Chief Financial Officer have satisfied themselves that as at June 30, 2011, the design of disclosure controls and procedures and the design of internal controls over financial reporting continue to be appropriate.

Over the course of the last two years, as policies were developed in relation to reporting under IFRS, internal controls and financial reporting and disclosure considerations were evaluated as well. Management has designed an adequate and appropriate controls framework for the fair value assessment processes required for reporting under IFRS to ensure values reported accurately reflect market conditions. For the fair value assessment process of investment properties and Unit-based compensation, these controls include a comprehensive review of the assumptions and estimates, including those used by the independent appraiser or third-party on an annual basis, as well as multiple levels of reviews of such key assumptions and data within CAPREIT by Management with final approval by the Board of Trustees on an interim and annual basis.

CAPREIT did not make any other changes to the design of internal controls over financial reporting in the first six months of 2011 that have materially affected, or are reasonably likely to materially affect, the internal controls over financial reporting.

It should be noted that a control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues, including instances of fraud, if any, have been detected. The design of any system of controls is also based in part on certain assumptions about the likelihood of future events, and there can be no assurances that any design will succeed in achieving its stated goals under all potential conditions.

SECTION VII

RISKS AND UNCERTAINTIES

There are certain risks inherent in an investment in the Units and the activities of CAPREIT, which investors should carefully consider before investing in Units. Risks and uncertainties in addition to those discussed below are disclosed in CAPREIT's 2010 Annual Report and in CAPREIT's latest Annual Information Form.

Reporting Investment Property at Fair Value

CAPREIT holds investment property to earn rental income or for capital appreciation or both. All investment property is measured using the fair value model whereby changes in fair value are recognized for each reporting period in the consolidated statement of income. Management values each investment property based on the most probable price that a property should be sold for in a competitive and open market as of the specified date under all conditions requisite to a fair sale, such as the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus. Each investment property has been valued on a highest and best use basis.

There is a risk that general declines in real estate markets or sale of assets by CAPREIT under financial or other hardship would impact the fair values reported, or the cash flows associated with owning or disposing such properties. Market assumptions applied for valuation purposes do not necessarily reflect CAPREIT's specific history or experience and the conditions for realizing the fair values through a sale may change or may not be realized. Consequently, there is a risk that the actual fair values may differ, and the differences may be material. In addition, there is an inherent risk related to the reliance on and use of a single appraiser, as this approach may not adequately capture the range of fair values that market participants would assign to the investment properties. CAPREIT mitigates this risk by undertaking a detailed review of the assumptions utilized in valuing the properties, including comparing the assumptions to the benchmarks derived from CAPREIT's own observations of market transactions. Certain ratios and covenants could be negatively affected by downturns in the real estate market and could significantly impact CAPREIT's operating revenues and cash flows, as well as the fair values of the investment properties.

Energy Costs and Hedging

As a significant part of CAPREIT's operating expenses is attributable to energy and energy-related charges and fees, fluctuations in the price of energy and any related charges and fees (including commodity taxes) can have a material impact on the performance of CAPREIT, its ability to pay distributions and the value of the Units.

From time to time, CAPREIT may enter into agreements to receive fixed prices on all or certain of its energy requirements (principally, natural gas and electricity in certain markets) to offset the risk of rising expenditures if prices for these energy commodities increase; however, if the prices for these energy commodities decline beyond the levels set in these agreements, CAPREIT will not benefit from such declines in energy prices and will be required to pay the higher price contracted for such energy supplies.

Subsequent to the second quarter, CAPREIT entered into a fixed-price natural gas contract covering the period from November 1, 2011 to October 31, 2012 (see note 26 to the accompanying unaudited consolidated interim financial statements). The contract fixes the price of the natural gas commodity at $3.79 per gigajoule (excluding transportation and other costs) for 1,900 gigajoules per day, which represents approximately 50% of CAPREIT's anticipated natural gas delivery requirements for the related 12 months. The fixed price arrangement is intended to mitigate the risk of rising natural gas prices over the related period.

Interest Rate Hedging

CAPREIT has in the past, and may in the future, use interest rate hedging arrangements to manage its exposure to interest rate volatility. Such hedging activities may not prove successful and may not have a positive impact on the results of operations or financial condition.

In general, hedging activities may subject CAPREIT to additional costs, such as transaction fees or breakage costs, if these arrangements are terminated. In addition, although Management enters into such hedge contracts with financially sound

counterparties in order to mitigate the risk that the counterparty may fail to honour its obligations, the risk cannot be mitigated completely.

CAPREIT entered into a hedging program in June 2011 which effectively hedged interest rates for a majority of mortgages maturing between September 2011 and June 2013. As a result of this forward interest rate hedge agreement, CAPREIT is subject to the risks associated with changes in interest rates above or below the fixed ceiling or floor, respectively, or different financing terms from the hedging derivative assumptions which may result in the hedging relationship to be ineffective causing volatility in earnings.

RELATED PARTY TRANSACTIONS

For the three and six months ended June 30, 2011, CAPREIT paid construction management fees of $0.5 million and $0.8 million, respectively, (based on 4.5% of construction costs up to $20.0 million, 3.0% for the next $15.0 million and 1.0% thereafter) in consideration for construction management services provided by a company owned by two trustees and officers of CAPREIT in connection with the capital investment programs for the properties.

CAPREIT leases office space with a company in which one of the trustees and officers has an 18% beneficial interest. The rent paid for the office space (which is based on fair market rents at the date the lease was entered into) for the three and six months ended June 30, 2011 was $0.2 million and $0.4 million, including property operating costs, and has been expensed as trust expenses. The lease agreement expires on October 31, 2014 and yearly minimum rental payments are $0.4 million before HST. Subsequent to the quarter, the lease was amended for additional office space resulting in minimum annual rental payments increasing by $51 thousand, however; the lease expiry date remains unchanged.

COMMITMENTS AND CONTINGENCIES

From time to time, CAPREIT enters into commitments for fixed price natural gas, hydro and land lease agreements, as outlined in note 26 to the accompanying unaudited consolidated interim financial statements.

CAPREIT is contingently liable under guarantees provided to certain of CAPREIT's lenders in the event of defaults and with respect to litigation and claims that arise in the ordinary course of business. These matters are generally covered by insurance. In the opinion of Management, any liability that may arise from such contingencies would not be expected to have a material adverse effect on the consolidated financial statements of CAPREIT.

SECTION VIII

SUBSEQUENT EVENTS

On July 31, 2011, CAPREIT completed the acquisition of an 811-suite portfolio in Laval, Québec. The purchase price was $70.0 million and was funded through the assumption of existing CMHC-insured mortgages totalling $47.0 million, at a weighted average stated interest rate of 4.80% and a weighted average term to maturity of 12.5 years, with the balance from the Acquisition and Operating Facility.

On July 21, 2011, CAPREIT announced that it had agreed to acquire a 229-suite property in Scarborough, Ontario. The purchase price of approximately $16.8 million will be funded through new CMHC-insured 10.5 year mortgage financing of approximately $12.9 million, at an interest rate of 3.88%, with the balance from the Acquisition and Operating Facility. The transaction is expected to close on August 10, 2011.

FUTURE OUTLOOK

Despite the potential adverse impact of the global economic uncertainty, with a robust national economy, Management believes the multi-unit residential rental business will continue to improve in the majority of the markets in which CAPREIT operates. As a result, Management expects to generate modest annual increases in overall average monthly rents while stabilizing average occupancies in the range of 97% to 98% on an annual basis. Management also anticipates operating revenues will benefit from programs over the long term to enhance revenues from parking, commercial leases, laundry, cable, telecommunications and other income sources. In addition, numerous successful cost management initiatives have proven effective, which should lead to stable net operating income over this period.

However, as a result of some continued economic uncertainty in particular regions, CAPREIT may experience an increase in bad debt and tenant inducement costs combined with a reduction in occupancy levels over the short term. CAPREIT believes the strong defensive characteristics of its property portfolio, due to diversification by both geography and demographic sector, will serve to mitigate some of the negative impact of the unfavourable economic conditions that certain regions are experiencing or may experience. CAPREIT intends to continue to seek opportunities to further diversify its property portfolio. In addition, despite having entered into a forward interest rate hedge, CAPREIT may still experience difficulty in obtaining long-term financing (i.e., financing for terms of ten years and longer) due to credit market conditions.

CAPREIT has defined a number of strategies to capitalize on its strengths and achieve its objectives of providing Unitholders with stable and predictable monthly cash distributions while growing distributions and Unit value over the long term.

First, Management will maintain its focus on maximizing occupancy and average monthly rents in accordance with local conditions in each of its markets. Since its inception in May 1997, CAPREIT's hands-on management style, focus on resident communications and capital investment programs aimed at increasing the long-term value of its properties have contributed to a strong track record of stable portfolio occupancy and average monthly rents.

A significant part of managing CAPREIT's annual rental increases is determined by the annual guideline increases established by certain provincial governments under rent control legislation that CAPREIT must adhere to in setting annual rental rates for renewing tenants. In the Province of Ontario, the guideline increase for 2011 is 0.7%, which compares unfavourably to the 2.1% guideline increase for 2010. The Ontario rent control legislation provides that landlords may apply to the Landlord and Tenant Board (the "Board") to raise rents by more than the approved annual guideline. The Board can allow such an above guideline increase ("AGI") for: (i) eligible capital expenditures; (ii) unusually high increases in property taxes and/or utility costs; and (iii) increases in eligible security costs. The maximum AGI permitted in connection with eligible capital expenditures is three percent per year to a maximum of nine percent over a three-year period. These same limitations do not apply to AGI applications related to unusually high increases in property taxes and/or utilities, or increases in eligible security costs. In July 2011, the Ontario Ministry of Municipal Affairs and Housing announced the rent control guideline for 2012 will be 3.1%.

In line with its focus to maximize average monthly rents, CAPREIT has begun pursuing above guideline increases where appropriate and to this effect, has filed 95 applications as of June 30, 2011 for completed property capital investments and/or unusually high increases in realty taxes, as well as one application relating to an unusually high increase in water costs. In addition, CAPREIT continues to assess the viability of a number of additional AGI applications. The impact of these AGI applications could be significant at the property level; however, it is presently indeterminable due to the inherent uncertainties associated with the adjudication process and the impact of tenant turnover at the affected properties.

The following table summarizes the status of AGI applications filed by CAPREIT as of June 30, 2011:

	Number of Applications	Number of Impacted Suites and Sites	Weighted Average Annual AGI (%) (1)	Weighted Average Number of Years (1),(2)
Filed	95	13,923	2.6%	1.3
Withdrawn	(7)	(1,436)	0.4%	1.0
Settled	(31)	(4,249)	2.7%	1.3
Outstanding	57	8,238	2.9%	1.4

(1) Weighted by number of impacted suites and sites.
(2) Represents the number of years over which the AGI application is expected to apply.

Second, Management will continue to focus on reducing its operating costs as a percentage of total revenues. Management is investing in various environment-friendly and energy-saving initiatives, including energy-efficient boilers and lighting systems, and is evaluating all energy-purchasing programs to reduce or stabilize overall net energy costs.

Third, Management will continue to direct its efforts on its building infrastructure improvement programs to upgrade properties across the portfolio and to reposition the portfolio by completing value-enhancing capital investments. These investments are expected to enhance the life safety of residents, improve the portfolio's long-term cash flow generating potential and increase its useful life over the long term.

Fourth, CAPREIT will continue to prudently focus on accretive acquisitions that meet its strategic criteria and enhance CAPREIT's geographic diversification. From time to time, CAPREIT will also identify certain non-core assets for sale that do not conform to its current portfolio composition or operating strategies. Management believes the realization and reinvestment of capital are fundamental components of its growth strategy and demonstrate the success of its investment programs.

Fifth, CAPREIT will continue to effectively manage interest costs by leveraging its balance sheet strength and the stability of its property portfolio to reduce borrowings on its credit facilities, while appropriately staggering the maturity dates within its mortgage portfolio to ensure it is not exposed in any one year to a refinancing risk. Management believes that as a result of the continuing availability of financing insured by CMHC that is at lower cost than is currently available under conventional mortgages, CAPREIT is well positioned to meet its financing and refinancing objectives at reasonable costs over the medium term.

CAPREIT will continue to maintain its conservative approach to its capital structure, leverage and coverage ratios and strive to further improve its distribution payout ratio. Management believes its successful equity financing and mortgage refinancing programs have resulted in CAPREIT possessing one of the strongest balance sheets in its industry, well suited to delivering consistent, stable and secure monthly cash distributions over the long term.